

# A MESSAGE FROM THE ACTING COMMISSIONER

I am pleased to present the Social Security Administration's fiscal year 2014 *Agency Financial Report* (AFR). This report describes how we managed our resources and administered our programs, and demonstrates our commitment to responsible stewardship. Through our AFR, we hope that the public will better understand our programs, challenges, and accomplishments in achieving our mission of delivering Social Security services that meet the changing needs of the public.

We take great pride in providing disability, survivors, retirement, and Supplemental Security Income (SSI) benefits to workers and their families. Social Security is an indispensable part of so many lives. Each day, our staff works diligently to serve the public with care and compassion. Despite the challenges we face, we work hard to meet the public's expectations and continue to make great strides by focusing on our Strategic Goals:

- Deliver innovative, quality services;
- Strengthen the integrity of our programs;
- Serve the public through a stronger, more responsive disability program;
- Build a model workforce to deliver quality service; and
- Ensure reliable, secure, and efficient information technology services.

We remain fully committed to providing consistently high-quality service, whether it is in our field offices, on our National 800 Number, or through our online services. While technology will not replace our employees and the one-on-one telephone and field office service options, it does offer us an opportunity to improve our efficiency and expand the ways in which we deliver our services. Over 14 million users have registered for a [my Social Security](#) account, which consistently ranks as one of the top 10 in customer satisfaction for all Federal websites. In addition, as discussed later in this report, we are expanding online access through Social Security Express, increasing video hearings, and expanding our video service delivery in field offices. We will continue to invest resources in these areas to serve the public effectively and with the highest quality now and in the future.

We remain committed to strengthening program integrity by providing the American taxpayer the maximum value for the resources entrusted to us. Our employees are our first line of defense. We will use every tool available to prevent and address waste, fraud, and abuse. Examples of initiatives that will help us maintain the public's trust include conducting continuing disability reviews and SSI redeterminations and expanding our Cooperative Disability Investigation program.

We are also exploring new technologies and using modern tools to improve efficiency in our disability program. For example, we are promoting the use of telephone and mobile wage reporting for the SSI program, refining the electronic claims analysis tool, and collaborating with other Federal agencies to improve the overall efficiency and effectiveness of our service to the public. In addition, we continue to develop the Disability Case Processing System (DCPS), our national initiative to increase consistency between the different systems supporting our disability process. DCPS will allow us to support policy changes faster and modify our case processing nationally. Although we have made substantial progress in implementing DCPS, its development has been more complex and challenging than initially anticipated. To ensure the successful delivery of the program, we commissioned a study that provided numerous recommendations, which we have begun to implement.

For the 21<sup>st</sup> consecutive year, we received an unmodified opinion on our financial statements. Based on our internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete, reliable, and accurate. I am also pleased to announce that we have no material weaknesses in our internal controls.

This report reflects the tireless efforts of our employees, who are our greatest asset. Our employees' hard work and commitment are vital to our continued success in meeting the needs and expectations of the American public.

A portrait photograph of Carolyn W. Colvin, the Acting Commissioner. She is a Black woman with short, dark hair, smiling at the camera. She is wearing a red jacket over a dark top. An American flag is visible in the background to her left.

Carolyn W. Colvin  
Acting Commissioner  
November 10, 2014

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To access this report online, please visit our [Fiscal Year 2014 Agency Financial Report webpage \(www.socialsecurity.gov/finance\)](http://www.socialsecurity.gov/finance).

## INTRODUCTION

For fiscal year (FY) 2014, we chose to produce an *Agency Financial Report* (AFR) and an *Annual Performance Report* (APR). Our AFR provides financial management and high-level performance information that enables the President, Congress, and the public to assess how well we accomplished our mission, achieved our goals, and managed the financial resources entrusted to us. We organize our AFR into the following major sections:

**Management's Discussion and Analysis:** The *Management's Discussion and Analysis* section gives an overview of our mission, organization, Strategic Goals and Objectives, Priority Goals, and key FY 2014 performance measures. We highlight the FY 2014 results of our key performance measures and discuss our accomplishments and plans to achieve our mission. We provide a summary of the financial information contained in subsequent sections of the AFR. We also include a synopsis of our systems, controls, and legal compliance.

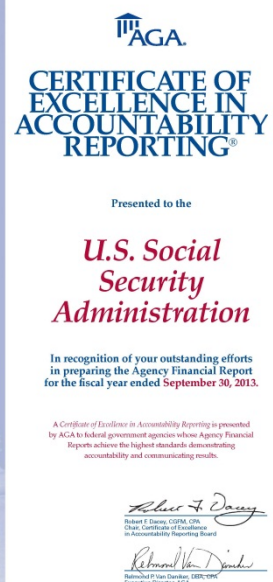
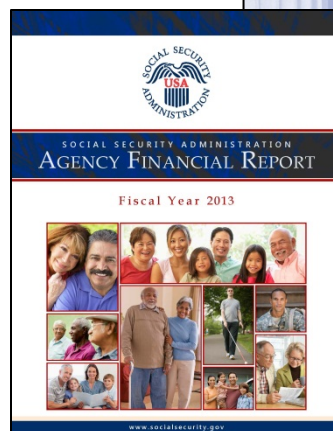
**Financial Section:** The *Financial Section* contains the message from our Chief Financial Officer, our audited financial statements, the accompanying notes to those statements, and required supplementary information, including the Schedule of Budgetary Resources and information on Social Insurance. This section concludes with the auditor's reports.

**Other Information:** The *Other Information* section includes the *Inspector General Statement on SSA's Major Management and Performance Challenges*, as well as our Summary of Financial Statement Audit and Management Assurances tables. We also provide a discussion of our entitlement reviews, information from the Office of the Inspector General concerning its anti-fraud activities, a summary of our actions to comply with the Freeze the Footprint initiative, and information on our debt management activities. The *Improper Payments Information Detailed Report* concludes this section.

**Appendix:** The *Appendix* includes a glossary of acronyms, a list of our agency's top management officials, the members of the Board of Trustees, and the members of the Social Security Advisory Board.

We will present detailed performance results in our FY 2014 APR, which we will publish as part of our Congressional Budget Justification. We plan to publish our FY 2014 APR in February 2015 along with our *FY 2014 Summary of Performance and Financial Information*.

*For the 16<sup>th</sup> year in a row, we received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting award for our annual Agency Financial Report. Receiving the Certificate of Excellence in Accountability Reporting for our FY 2013 Agency Financial Report is a significant accomplishment for a Federal agency, and it is the highest form of recognition in Federal financial reporting.*



# MANAGEMENT'S DISCUSSION AND ANALYSIS





The *Management's Discussion and Analysis* (MD&A) section is required supplementary information to the financial statements and provides a high-level overview of the Social Security Administration. The MD&A describes who we are, what we do, and how well we meet our established goals.

The *Overview of the Social Security Administration* section highlights our mission as set forth in our *Agency Strategic Plan*. In this section, we identify the major programs we administer and provide a brief explanation of our organization.

The next section, *Overview of Our Fiscal Year 2014 Goals and Results*, provides a high-level discussion of our goals and our key mission results. This section links our agency-wide Strategic Goals with our Priority Goals, displays our fiscal year 2014 operating expenses by Strategic Goal, highlights how our results contribute to achieving our Strategic Goals and Objectives, and discusses how we plan to address the challenges we face.

In addition, the MD&A also addresses our financial performance in the *Highlights of Financial Position* section. We provide an overview of our financial data and explain the major sources and uses of our funds, as well as the use of these resources in terms of both program and function. We also provide an overview of our Social Insurance data, discuss the solvency of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, and indicate the projections for short-term and long-term financing of the OASI and DI Trust Funds. We end this section with a summary of our progress in addressing improper payments.

Finally, the *Systems and Controls* section describes the actions we have taken to address our management control responsibilities. The Management Assurances section provides our assurances related to the *Federal Managers' Financial Integrity Act* and the determination of our compliance with the *Federal Financial Management Improvement Act*. We also address the results of the audit of our financial statements and compliance with the *Federal Information Security Management Act*.

# OVERVIEW OF THE SOCIAL SECURITY ADMINISTRATION

## OUR MISSION

*Deliver Social Security services that meet the changing needs of the public*

## SOCIAL SECURITY BENEFITS AMERICA

The programs we administer provide a financial safety net for millions of Americans, and many people consider them the most successful large-scale Federal programs in our Nation's history. In fact, 9 out of 10 individuals age 65 and older receive Social Security benefits. During fiscal year (FY) 2014, we paid more than \$894 billion to more than 63 million beneficiaries.

### OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

#### OLD-AGE AND SURVIVORS INSURANCE PROGRAM

Today, most people plan their retirement based on the date they will receive their Social Security benefits. The Old-Age and Survivors Insurance program (what most people think of as their Social Security benefit), created in 1935, provides retirement and survivors benefits to qualified workers and their families. Working and paying Social Security taxes earns workers credits toward Social Security benefits. Most people need 40 credits, or 10 years of covered work, to qualify for retirement benefits.

A person qualifies for full retirement benefits between the ages of 65 and 67, depending on the year he or she was born. Reduced retirement benefits are payable as early as age 62. Certain members of retired workers' families may also receive benefits. Spouses (including divorced spouses), minor children, and children who became disabled before age 22 may also be eligible for benefits.

Social Security also provides income for families of workers who die. Survivor's benefits were added in 1939, and benefits for disabled widows and widowers were added in 1968. Widows, widowers (and divorced widows and widowers), dependent parents, and children may be eligible for survivor's benefits. In fact, 98 of every 100 children could get benefits if a working parent dies. Social Security pays more benefits to children than any other Federal program.

#### DISABILITY INSURANCE PROGRAM

Social Security Disability Insurance provides benefits to people who cannot work because they have a medical condition expected to last at least one year or result in death. People who have worked long enough and paid Social Security taxes and certain members of their families can qualify for Social Security Disability Insurance benefits. The disability program began in 1956 as a benefit for disabled workers between the ages of 50 and full retirement. The program expanded in 1960 to include disabled workers of all ages.

## SUPPLEMENTAL SECURITY INCOME PROGRAM

Supplemental Security Income (SSI), established in 1972, is a Federal program designed to provide a monthly payment to people who are aged, blind, or disabled with limited income and resources. Adults and children under the age of 18 can receive payments based on disability or blindness.

General tax revenue, not workers' Social Security taxes, funds the SSI program.

## HOW SOCIAL SECURITY BENEFITED AMERICA IN FISCAL YEAR 2014

- On average each month, about 63.4 million individuals received Social Security or Federal SSI benefits. A combined total of about \$894 billion was paid in Social Security and Federal SSI benefits;
- About 88 percent of the American population age 65 and over received Social Security benefits;
- Among elderly Social Security beneficiaries, 52 percent of married couples and 74 percent of unmarried individuals relied on Social Security for 50 percent or more of their income;
- About 96 percent of persons age 20-49 who worked in covered employment had survivors protection for their young children and a surviving spouse caring for the children; and
- On average each month, more than 1.3 million blind or disabled children under age 18 received Federal SSI payments.

## HOW WE SERVED AMERICA IN FISCAL YEAR 2014

- |  |  |
|--|--|
| • Issued 16 million new and replacement Social Security cards;                                 | • Completed 757,198 reconsideration disability claims;   |
| • Performed over 1.8 billion automated Social Security number verifications;                   | • Provided support services for 316,363 beneficiaries trying to return to work or improve their earnings through the Ticket to Work program; |
| • Posted over 253 million earnings items to workers' records;                                  | • Completed over 2.6 million SSI non-disability redeterminations;  |
| • Handled more than 37 million calls on our National 800 Number;                               | • Completed 525,875 full medical continuing disability reviews;  |
| • Assisted 40.8 million visitors in field offices;   | • Completed 247,215 work continuing disability reviews;  |
| • Registered 6.13 million users for <i>my Social Security</i> , a personalized online account; | • Completed over 2.8 million overpayment actions;  |
| • Received approximately 5 million retirement, survivor, and Medicare applications;            | • Completed 162,280 Appeals Council requests for review; and   |
| • Completed over 2.8 million initial disability claims;  | • Completed 680,963 requests for hearings.   |

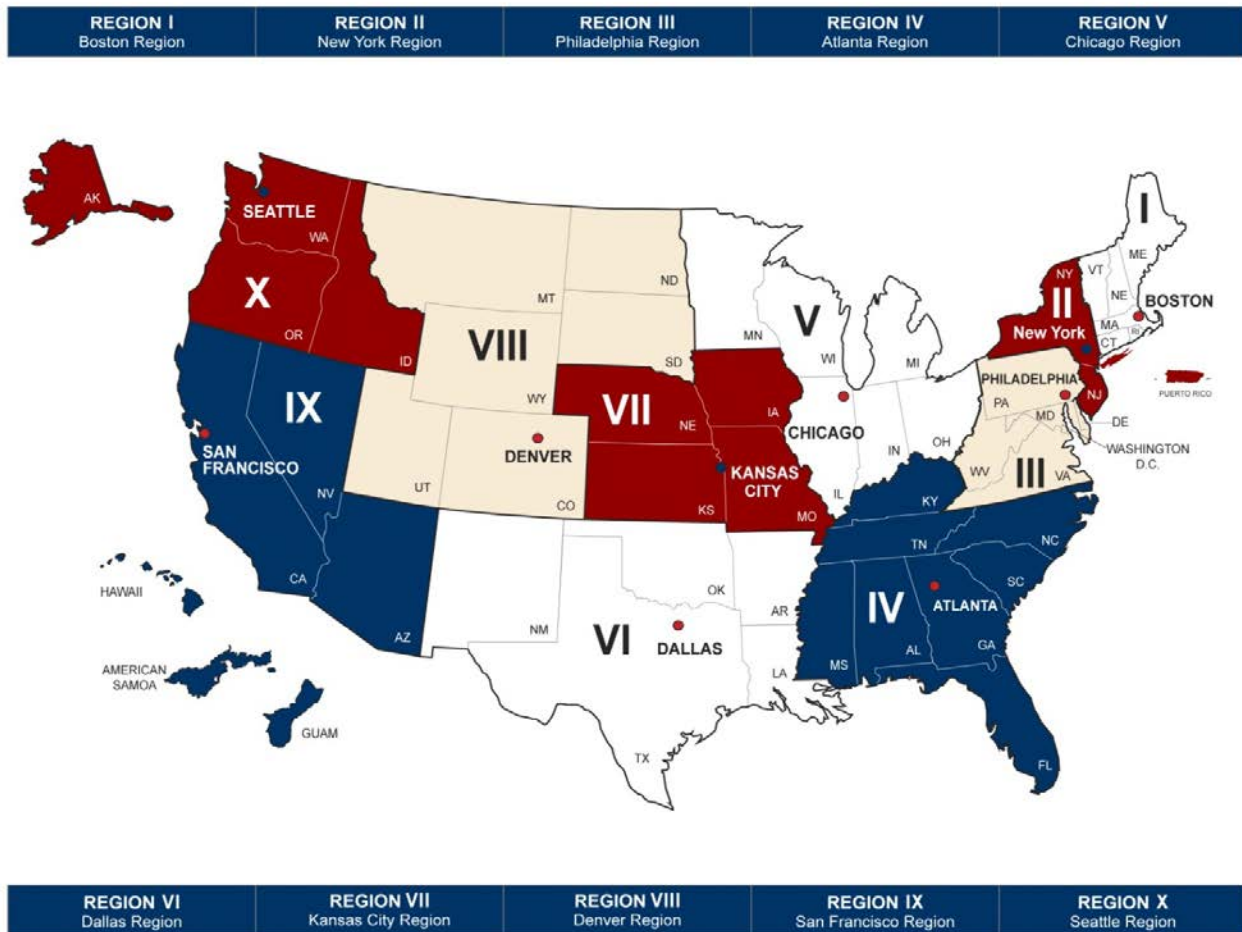


## OUR ORGANIZATION

Serving the American public requires a vast network of facilities, technology, and skilled staff. Every day, more than 75,000 Federal and State employees provide service to our customers. Nationwide, we have a network of about 1,400 offices, including regional offices, field offices, Social Security card centers, teleservice centers, processing centers, hearing offices (including satellite offices and National Hearing Centers), the Appeals Council, and our headquarters in Baltimore, Maryland. Internationally, we deliver services in U.S. embassies in hundreds of countries.

Customers receive in-person service mainly at our field offices and Social Security card centers. Our teleservice centers primarily handle calls to our National 800 Number. Employees in our processing centers typically handle Social Security retirement, survivors, and disability payments. These employees also provide a wide range of other services, including handling telephone calls to our National 800 Number.

We maintain strong partnerships with State agencies and depend on their employees in 54 State and territorial disability determination services sites to make disability determinations. Administrative law judges in our hearing offices and the administrative appeals judges in our Appeals Council decide appeals of Social Security and SSI issues. For more information about our components and their functions, visit our [organizational structure webpage \(www.socialsecurity.gov/org\)](http://www.socialsecurity.gov/org).



# OVERVIEW OF OUR FISCAL YEAR 2014 GOALS AND RESULTS

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## HOW WE MANAGE PERFORMANCE

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**Our Performance Framework:** The *Government Performance and Results Modernization Act of 2010* (GPRMA) specifies criteria for agency strategic plans to align with presidential terms and ensure that agency goals align with broader Federal efforts.

Setting goals and measuring their outcomes is vital to our performance success. We define our performance framework in the [Fiscal Year 2014-2018 Agency Strategic Plan \(www.socialsecurity.gov/asp\)](http://www.socialsecurity.gov/asp). Our *Agency Strategic Plan* (ASP) links our Strategic Goals with underlying objectives, strategies, and relevant issues.

Our Strategic Goals are:

- Strategic Goal 1: Deliver Innovative, Quality Services;
- Strategic Goal 2: Strengthen the Integrity of Our Programs;
- Strategic Goal 3: Serve the Public through a Stronger, More Responsive Disability Program;
- Strategic Goal 4: Build a Model Workforce to Deliver Quality Service; and
- Strategic Goal 5: Ensure Reliable, Secure, and Efficient Information Technology Services.

**Our Planned Performance:** In March 2014, we published our [Annual Performance Plan for FY 2015, Revised Performance Plan for FY 2014 and Annual Performance Report for FY 2013 \(www.socialsecurity.gov/agency/performance/\)](http://www.socialsecurity.gov/agency/performance/) as a part of the [President's FY 2015 Budget Request \(www.socialsecurity.gov/budget/\)](http://www.socialsecurity.gov/budget/). Collectively we refer to this combined document as our *Annual Performance Report* (APR). The APR outlines our tactical plans for achieving the goals and objectives in our ASP and finalizes our performance commitments for FY 2014.

Each September, a draft of the APR accompanies our budget submission to the Office of Management and Budget (OMB). The draft APR provides our priorities and key initiatives for the next two fiscal years, the performance measures we will use to evaluate our success, and our progress to date on current fiscal year commitments. The budgeted workloads published in our APR correspond to the key workload measures contained in our [FY 2014 Operating Plan \(www.socialsecurity.gov/budget/FY14Files/2014OP.pdf\)](http://www.socialsecurity.gov/budget/FY14Files/2014OP.pdf).

**Our Actual Performance and Program Results:** We update the APR after the close of the fiscal year to provide performance results for the previous fiscal year. We will issue the final APR, containing our actual FY 2014 results, in February 2015. The final APR will be available on our [Budget Estimates and Related Information website \(www.socialsecurity.gov/budget/\)](http://www.socialsecurity.gov/budget/).

This *Agency Financial Report* summarizes our key initiatives, overall performance results, and financial activities in carrying out our mission in FY 2014. This table shows our operating expenses by Strategic Goal.

FY 2014 Operating Expenses by Strategic Goal (Dollars in Millions)	
Deliver Innovative, Quality Services	\$ 2,734
Strengthen the Integrity of Our Programs	\$ 1,910
Serve the Public through a Stronger, More Responsive Disability Program	\$ 5,756
Build a Model Workforce to Deliver Quality Service	\$ 346
Ensure Reliable, Secure, and Efficient Information Technology Services	\$ 1,034

**Our Priorities:** We established our Agency Priority Goals (APG), as required by GPRMA, in FY 2014. We expect to achieve our APGs by the end of FY 2015. We routinely review our progress and take actions to improve our outcomes, stimulate innovation, and deliver favorable results.

Our four APGs are:

- APG 1: Improve access to our services by increasing the number of citizens who complete their business with us online;
- APG 2: Deliver a world-class customer experience by expanding the use of video technology to hold hearings;
- APG 3: Provide the public with access to personalized information by increasing the number of established *my Social Security* accounts; and
- APG 4: Reduce the percentage of improper payments made under the Supplemental Security Income program.

Our APGs are aggressive and reflect the performance improvement priorities of our executive leadership. You can find additional information on our APGs performance on [Performance.gov \(www.performance.gov/agency/social-security-administration#overview\)](http://www.performance.gov/agency/social-security-administration#overview).

Established by GPRMA, Cross-Agency Priority (CAP) goals accelerate progress on presidential priority areas. Multiple agencies actively collaborate to achieve results in these areas.

OMB established CAP goals based on input from Federal agencies and congressional committees. These goals reflect the President's second-term priorities.

There are seven mission-oriented and eight management-focused CAP goals. Each CAP goal has two senior leaders – one within the Executive Office of the President and one within a key delivery agency. The Social Security Administration and OMB co-lead the Customer Service CAP goal.

Additional information about CAP goals and our participation in them is available on [Performance.gov \(www.performance.gov/cap-goals-list?view=public\)](http://www.performance.gov/cap-goals-list?view=public).

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## SUMMARY OF FISCAL YEAR 2014 PERFORMANCE

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This summary highlights the approaches we used to achieve the targets set in support of our goals during FY 2014. It also outlines some of the challenges we faced meeting these goals. We base our planned performance targets on our full budget request. If necessary, we adjust our resources accordingly to complete our budgeted workloads and agency goals.

Final data for 8 of our 51 performance measures was not available at the time this report was published. We will include those overall results in our *FY 2015 Agency Financial Report*. We met our target for 29 of the 43 performance measures with available data.

Below is an assessment of our overall progress by Strategic Goal in FY 2014:

- Strategic Goal 1: Deliver Innovative, Quality Services
  - Met the target for 6 of 11 measures
  - Did not meet the target for 5 of 11 measures
  - Final data not available for 0 of 11 measures
- Strategic Goal 2: Strengthen the Integrity of Our Programs
  - Met the target for 5 of 7 measures
  - Did not meet the target for 0 of 7 measures
  - Final data not available for 2 of 7 measures
- Strategic Goal 3: Serve the Public through a Stronger, More Responsive Disability Program
  - Met the target for 5 of 17 measures
  - Did not meet the target for 9 of 17 measures
  - Final data not available for 3 of 17 measures
- Strategic Goal 4: Build a Model Workforce to Deliver Quality Service
  - Met the target for 6 of 9 measures
  - Did not meet the target for 0 of 9 measures
  - Final data not available for 3 of 9 measures
- Strategic Goal 5: Ensure Reliable, Secure, and Efficient Information Technology Services
  - Met the target for 7 of 7 measures
  - Did not meet the target for 0 of 7 measures
  - Final data not available for 0 of 7 measures

## STRATEGIC GOAL 1: DELIVER INNOVATIVE, QUALITY SERVICES

### Strategic Objectives

- Develop and Increase the Use of Self-Service Options
- Enhance the Customer Experience by Completing Customers' Business at the First Point of Contact
- Partner with Other Agencies and Organizations to Improve Customers' Experience and Align with the Administration's One-Government Approach
- Evaluate Our Physical Footprint to Incorporate Improved Service Options

### Agency Priority Goals

*Improve access to our services by increasing the number of citizens who complete their business with us online.*

*Deliver a world-class customer experience by expanding the use of video technology to hold hearings.*

We serve the public through multiple service delivery channels: in-person, via telephone, and online. The following tables present our performance in four of our key performance measures. The first two performance measures support our APGs listed above.

#### Improve access to our services by increasing the number of citizens completing their business with us online

Fiscal Year	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2014 Target	Target Achieved
Performance	13.5 million	16 million	21.8 million	46.3 million	70 million	50.9 million	MET

#### Deliver world-class customer experience by expanding the use of video technology to hold hearings

Fiscal Year	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2014 Target	Target Achieved
Performance	20.3%	20.1%	22.8%	26.1%	28%	28%	MET

#### Maintain high customer satisfaction with our online services

Fiscal Year	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2014 Target	Target Achieved
Performance	81	81	82	82	83	80	MET

#### Minimize the average response time to deliver medical evidence to the Department of Veteran Affairs for wounded warriors and veterans

Fiscal Year	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2014 Target	Target Achieved
Performance	10 days	7 days	6 days	7 days	6 days	5 days	NOT MET

We have a long history of exemplary customer service marked by high customer satisfaction. Our high level of customer satisfaction is, in part, the result of our success using technology to improve and expand the services we offer the American public. In 2007, less than 10 percent of claims were filed online. In FY 2014, more than 52 percent of claims were filed online.

Our efforts to deliver world-class, innovative, quality services include:

**Expanding Online Access through Social Security Express:** Customers do not need computers in their homes to use our online services. Our Social Security Express initiative provides access to our online services in our field offices and in external locations.

We have three major Social Security Express projects underway:

- **Self-help personal computers** are available in 549 offices nationwide. Self-help personal computers allow our customers to access our online services using computers in our offices. Using the computers enables customers to perform some transactions without waiting to see a representative.

In FY 2014 and FY 2015, we plan to enhance this service by rolling out a virtual desktop infrastructure technology, which provides us the ability to troubleshoot remotely. It will reduce the amount of staff time required to maintain our current self-help personal computers. In January 2015, we plan to pilot this technology in 50 field offices. In FY 2014, we purchased 1,287 new computers, and by May 2015 we will install the new computers in 652 field offices.

- **Desktop icons** provide a direct link from a public computer to our online services. These icons are available to external partner sites, such as libraries and senior centers. Users can access the same services that are available through the self-help personal computers in our field offices.
- **Customer service stations** contain a computer with a touch screen monitor and video access enabling the user to have real-time contact with a representative, if needed. A printer is also available so users can print documents, such as benefit verification letters.

**Leveraging my Social Security:** To date, we have over 45,000 web pages, 20 online services, information in 18 languages, and a presence on several social media sites. We host 17 million visits to our website each month. Our customers are demanding more online services, and we are responding as quickly as possible, while ensuring my Social Security remains secure and easy to use. My Social Security has more than 14 million registered users and consistently ranks as one of the top 10 in customer satisfaction for all Federal websites.

**Implementing Online Social Security Number Card Application:** Replacing Social Security number cards is one of our most requested services. In FY 2013 alone, we issued 10 million replacement cards in field offices and Social Security card centers across the country. This workload is significant, highly sensitive, and sometimes complex, often requiring in-person interviews.

In FY 2014, we began work to enable my Social Security users who are U.S. citizens over the age of 18 with no changes to their record to apply online for a replacement Social Security number card. We expect to roll out this new feature to select states in FY 2016, enabling users to avoid travel time, wait time, and in-person interviews. The application will provide users with a secure, trusted, and legally sufficient, real-time method to request replacement Social Security number cards online and will allow our employees more time to process other workloads.

**Establishing the Social Security Electronic Remittance System:** Currently, customers can pay preapproved standard service fees, such as those for copying electronic or paper folders, only by check or money order. Our new electronic remittance system will enable payment by credit and debit card. Because we must receive payment before we can complete the customer's request, this new system will allow us to process customer transactions immediately in cases where the files are readily accessible.

The Social Security Electronic Remittance System is currently in production in 20 field offices. In a later phase of this project, we plan to handle other types of collections through this system.



**Increase Video Hearings:** We held our one-millionth video hearing at the end of FY 2014. Video hearings play a critical role in our disability adjudication process by enabling claimants to participate in a hearing near their homes. We conduct video hearings in hearing offices, permanent remote sites, claimant-only sites inside field offices, National Hearing Centers, and through select representatives participating in the Representative Video Project. Video hearings allow our administrative law judges to spend less time traveling to hearings and more time hearing and deciding cases. Additionally, we are able to balance our hearings workloads by electronically transferring cases to offices that can accommodate the additional work.

We will continue to expand and improve video hearing services in FY 2015 and FY 2016 by replacing our existing, aging technology with cutting edge, high-quality equipment. We also plan to increase marketing and educational information to emphasize the benefits of video hearings and pursue policy and business process changes to maximize efficiency.

**Expanding Video Service Delivery:** Some of our customers live in areas with limited public transportation and have difficulty getting to our field offices. Video service delivery allows us to provide services to our customers at convenient third-party sites, such as hospitals, libraries, community centers, American Indian tribal centers, and homeless shelters. Video services reduce time and costs for traveling to remote locations.

In FY 2013, we provided 20 video units to the disability determination services (DDS), allowing them to conduct video disability hearings and video consultative exams. Additionally, we installed 15 video units in partner locations to assist veterans in Wounded Warrior programs and reduce our travel expenses.

To support a projected increase in DDS disability hearing workloads (i.e., appeals of continuing disability review decisions), we are relocating 40 existing video units to offices where there is a greater need. In FY 2015, we will expand video service delivery by an additional 83 desktop units to increase our capacity for conducting video hearings.

In FY 2016, we will analyze productivity and cost savings of video service delivery to determine if we should expand to additional external partner site locations.

**Providing Real-Time Assistance to Online Users:** We are dedicated to delivering world-class service to all of our customers, including our online users. In May 2014, we celebrated 20 years of online services.

In FY 2013, we implemented a help desk to provide near real-time telephone support for users of *my Social Security* online services. Users can receive support by calling the National 800 Number or using a web-based form to request a call back from us.

We are developing a suite of customer engagement tools that will allow *my Social Security* account users to receive alerts, messages, and agency announcements through a secure, personalized Message Center. Additionally, we will add click-to-communicate technologies and screen sharing, allowing anyone navigating our website to click a link to talk to us.

**Expand Our Partnerships with External Organizations:** Our Social Security Express initiative currently includes two self-service options that allow the public to complete their business from external partner locations (local, State, or Federal Government agencies such as the Department of Veterans Affairs or the Department of Housing and Urban Development). Those self-service options are:

- A Social Security Express icon installed on the partner sites' desktop computers, enabling access to our online services; and
- A customer service station, containing a desktop computer and a printer, offering limited online services and video assistance from one of our employees.

In FY 2013, we launched the program, and 25 partner sites downloaded the Social Security Express icon to the desktops of their public computers. In FY 2014, we expanded our partnership to 168 sites.

## STRATEGIC GOAL 2: STRENGTHEN THE INTEGRITY OF OUR PROGRAMS

### Strategic Objectives

- Transform the Way We Record Earnings to Enhance Data Accuracy
- Protect the Public's Data and Provide Secure Online Services
- Increase Payment Accuracy

### Agency Priority Goal

*Reduce the percentage of improper payments made under the Supplemental Security Income program.*

Paying the right person, the right amount, at the right time is critical, and we take this responsibility very seriously. We are committed to protecting our programs from waste, fraud, and abuse.

The following table presents our outcome-based performance measure supporting our agency priority goal to reduce SSI improper payments.

Reduce the percentage of improper payments made under the SSI program							
Fiscal Year	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2014 Target	Target Achieved
Performance	11.6%	10.8%	9.6%	8.6%	Data available April 2015	6.2%	TBD*

TBD\*: To be determined as final FY 2014 data were not available at the time of publishing.

Currently, we pay \$75 billion each month in benefits across all our programs. The payment accuracy rate for our retirement and survivors programs has been over 99 percent for the past several years.

Accurate, timely information reduces improper payments. We are using the latest technology to prevent identity theft and improve debt collection. We will invest in and enhance partnerships with our beneficiaries. We will find opportunities to share information with other Federal and State agencies. We expect these efforts to help us get information sooner.

Some of the initiatives we are undertaking to strengthen the integrity of our programs include:

**Increasing Electronic Wage Report Filing:** Every year we receive nearly 29 million paper Forms W-2 from over 3.2 million paper wage reports. Paper wage reports are more error prone, labor intensive, and expensive to process.

In FY 2013, we added functionality to our online W-2 and implemented user-friendly enhancements to make it easier for small businesses to use our electronic wage reporting services. We also added an option to our W-2 online service making it easier for prior-year customers to complete their current year submission.

We encourage employers and third-party submitters (i.e., people who submit wages to us on behalf of employers) to use electronic wage reporting. Planned enhancements for FY 2015 include a self-registration, self-testing process for all new electronic wage reporting web service users. For FY 2016, we plan a phased expansion of the electronic wage reporting web service, including expanding the electronic wage reporting status function, allowing submitters to find out why a submission was returned.

**Producing a Public Facing Integrity Review:** As we add more online services, we will remain alert to fraudulent and malicious acts against our systems. We developed our Public Facing Integrity Review system in FY 2013 to identify unusual and potentially fraudulent activity in our Internet applications.

In FY 2014, we enhanced the system with additional functionality and new scenarios to detect fraud. In FY 2014, we prevented the attempted theft of 4,736 benefit payments totaling more than \$5.6 million.

In FY 2015, we will continue to enhance our Public Facing Integrity Review by adding additional scenarios and integrating with the online Social Security number replacement card process.

**Promoting Use of the Supplemental Security Income Telephone Wage Reporting System and the Supplemental Security Income Mobile Wage Reporting:** Delayed wage reports cause payment errors in the Supplemental Security Income (SSI) program. To improve timely reporting, we implemented the SSI Telephone Wage Reporting system and SSI Mobile Wage Reporting program. With the SSI Telephone Wage Reporting system and SSI Mobile Wage Reporting program, we increase efficiency by reducing unnecessary visits to the field office, reducing manual keying errors, and allowing us to automatically process wage reports.

In FY 2014, we began allowing people to report wages at any time during the month rather than just the first six days of the month. We also started using GovDelivery as a means for SSI wage reporters to sign up for email or text reminders. GovDelivery is a public web-based tool that sends notices, emails, and reminders to customers.

In September 2014, we increased the number of monthly wage reports successfully processed using the SSI Telephone Wage Reporting system and SSI Mobile Wage Reporting program by more than 6 percent over our September 2013 experience.

For FY 2015, we will increase the number of monthly wage reports using our automated wage reporting tools by 6 percent over the volume we process at the end of FY 2014.

**Conducting Continuing Disability Reviews:** To ensure we pay disability benefits only to those who meet our medical requirements, we periodically conduct continuing disability reviews for both Social Security Disability Income and SSI beneficiaries to determine if a beneficiary's medical condition has improved and if they are still eligible for benefits. In many cases, we use statistical modeling to predict a beneficiary's probability of improvement, allowing us to identify specific cases for continuing disability reviews. In FY 2014, we completed 525,875 continuing disability reviews.

**Conducting Supplemental Security Income Redeterminations:** Changes in beneficiaries' living arrangements or the amount of their income and resources can affect both their eligibility for SSI and the amount of their payments. To ensure the accuracy of SSI payments, we conduct redeterminations. In FY 2014, we completed 2,627,518 redeterminations.

**Expanding the Access to Financial Institutions:** Excess resources in financial accounts cause SSI payment errors. Access to Financial Institutions (AFI) is an electronic process that verifies bank account balances with financial institutions to help determine SSI eligibility. In addition to verifying alleged accounts, the process detects undisclosed accounts by using a geographic search to generate requests to other financial institutions. Along with preventing overpayments, the AFI process helps us eliminate ineligible applicants at the beginning of the application process and reduce the workload in the DDS. We currently use the AFI system in all 50 states, the District of Columbia, and the Commonwealth of the Northern Mariana Islands.

**Implementing Direct Deposit Auto-Enrollment Fraud Prevention:** In an effort to prevent redirection of beneficiaries' payments to other accounts without their knowledge, we created the direct deposit auto-enrollment fraud prevention service. This service allows beneficiaries who have been victims of fraud, or who think they may become victims in the future, to block changes to their payment information. People who block account changes must come into a field office to make direct deposit or address changes.

In August 2014, we started sending notices of change to beneficiaries' old addresses when we process an address change requested through [my Social Security](#). The notice tells the beneficiary to contact us if an address change was not requested. We will explore expansion to other service delivery methods in the future.

### STRATEGIC GOAL 3: SERVE THE PUBLIC THROUGH A STRONGER, MORE RESPONSIVE DISABILITY PROGRAM

#### Strategic Objectives

- Improve the Quality, Consistency, and Timeliness of Our Disability Decisions
- Maximize Efficiencies throughout the Disability Program
- Enhance Employment Support Programs and Create New Opportunities for Returning Beneficiaries to Work

#### Did You Know?

*Social Security offers an online disability application an applicant can complete at his or her convenience from any location.*

We remain committed to meeting the public's needs by using technology and tools that are cost effective for the taxpayer and convenient for our customers. We will continue to balance timeliness with an emphasis on quality and consistency in decision-making.

The following tables highlight several of our key outcome-based performance measures. These performance measures support our Strategic Goal to strengthen our disability program.

#### Expedite cases for the most severely disabled individuals by achieving the target percentage of initial disability cases identified as Quick Disability Determinations or Compassionate Allowances

Fiscal Year	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2014 Target	Target Achieved
Performance	4.6%	4.8%	5.8%	6.6%	6.6%	6.5%	MET

#### Ensure the quality of our decisions by achieving the disability determination services decisional accuracy rate for initial disability decisions

Fiscal Year	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2014 Target	Target Achieved
Performance	98%	98%	98%	98%	Data available December 2014	97%	TBD*

TBD\*: To be determined as final FY 2014 data were not available at the time of publishing

#### Increase our ability to provide timely decisions by focusing on our oldest cases first

Fiscal Year	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2014 Target	Target Achieved
Performance	Not Available**	Not Available**	Not Available**	Not Available**	98%	Make decisions on 99.5% of cases that start the year 310 days or older	NOT MET

\*\* New target and data definition introduced for FY 2014. Prior years tracking methodology differs and not available based on FY 2014 data definition.

While our customers expect us to make timely decisions, they also expect us to make the right decisions, appropriately and consistently applying our rules and regulations. We will continue to balance timeliness with an emphasis on quality and consistency in decision-making.

Our efforts to deliver quality disability decisions and services include:

**Enhancing the Electronic Claims Analysis Tool:** We continue to enhance our web-based Electronic Claims Analysis Tool (eCAT), which guides adjudicators through the five-step sequential process for determining disability. The tool produces a detailed, policy-compliant explanation of the determination made on the case and stores the supporting documentation. A subsequent reviewer can then review the explanation to understand the decision maker's analysis and conclusions throughout the adjudication processes.

All DDS sites use eCAT for initial and reconsideration disability claims. As of August of FY 2014, eCAT includes functionality for processing electronic concurrent initial level adult continuing disability reviews. In FY 2015 and FY 2016, we will continue to add functionality for processing other types of continuing disability reviews, as well as refine eCAT in response to policy changes and input from its users.

**Updating the Medical Listing of Impairments:** The medical Listing of Impairments (Listings) is one of the most effective tools used to make disability decisions. The Listings allow us to find a claimant disabled when his or her impairment meets specified medical criteria, without the need to consider age, education, or work experience. The Listings improve the consistency and accuracy of our decisions throughout all levels of the disability process.

Our efforts in FY 2014 to update and revise medical policy included publishing four rules for public comment, one final rule, and three Social Security Rulings. In FY 2015, we plan to develop and submit eight final rules, two Social Security Rulings, and targeted updates for the medical Listings for publication in the Federal Register.

**Conducting Inline Quality Reviews:** The inline quality review of hearing-level claims promotes consistency and continuous improvement in case processing by ensuring that:

- Case files are properly prepared and scheduled;
- Records are adequately developed; and
- Draft decisions are legally sufficient.

In FY 2014, we conducted random inline quality reviews on 13,258 hearing cases. We will continue to review support staff work for quality and policy compliance.

**Reducing the Backlog at the Appeals Council:** Historically, we received approximately 100,000 requests for review annually. In recent years, the number of requests for reviews rose to 175,000 annually. This rise is due to an increase in cases completed at the hearing level, which results in the Appeals Council receiving more requests for review. To address this increase, we continued to add staff in the Office of Appellate Operations. We are now focusing on decreasing the percentage of pending Appeals Council requests for review over 365 days old.

We are focusing on decreasing the percentage of pending Appeals Council requests for review over 365 days old. In FY 2014, we completed approximately 162,000 Appeals Council requests for review. We will continue to adjust Appeals Council staff levels to both reduce the Appeals Council backlog and meet any changes in capacity at the DDS and the hearings levels.

**Developing the Disability Case Processing System:** The Disability Case Processing System is a national initiative to increase consistency between the different systems supporting our DDS sites. The system will allow us to support policy changes faster and modify our case processing system nationally. In addition, it will allow us to share work across disability components seamlessly and bring greater consistency to the various systems that support DDS sites. Our goal is to achieve the highest level of public service possible, while producing accurate decisions that are timely and cost effective.

In FY 2015 and FY 2016, we will continue to add functionality to sites in Idaho, Illinois, and Missouri, as well as expand to additional DDS sites.

**Using Health Information Technology to Expedite Disability Decisions:** Obtaining medical records electronically from health care organizations increases efficiencies in our disability determination process and dramatically improves service to the public by:

- Reducing the time to obtain medical records;
- Decreasing the time to complete a disability claim;
- Helping offset increasing workloads and staffing constraints; and
- Enabling computerized decision support.

We request more than 15 million medical records from about 500,000 providers for approximately 3 million initial disability claims annually. Our primary goal is to increase the volume of medical evidence received via health information technology by expanding existing partnerships and adding new partners. We are actively discussing partnering with numerous healthcare organizations and completed expansion to all Kaiser Permanente sites in March 2014.

In FY 2014, we received records electronically for approximately 3 percent of our initial disability claims workload. We expect this number to increase to 4 percent in FY 2015 and 6 percent in FY 2016.



## **STRATEGIC GOAL 4:**

### **BUILD A MODEL WORKFORCE TO DELIVER QUALITY SERVICE**

#### **Strategic Objectives**

- Attract and Acquire a Talented and Diverse Workforce That Reflects the Public We Serve
- Strengthen the Competency, Agility, and Performance of Our Workforce to Align with the Needs of the Public
- Foster an Inclusive Culture that Promotes Employee Well-Being, Innovation, and Engagement
- Enhance Planning and Alignment of Human Resources to Address Current and Future Public Service Needs



Maintaining a quality workforce is critical to providing continued world-class service to the public. The following table represents our performance in maintaining workplace excellence and the practices we implement that support our employees. This performance measure supports our commitment to the People and Culture CAP goal.

<b>Maintain status as one of the top 10 Best Places to Work among large agencies in the Federal Government</b>							
<b>Fiscal Year</b>	<b>2010 Actual</b>	<b>2011 Actual</b>	<b>2012 Actual</b>	<b>2013 Actual</b>	<b>2014 Actual</b>	<b>2014 Target</b>	<b>Target Achieved</b>
<b>Performance</b>	Top 10 Rank	Top 10 Rank	Top 10 Rank	Top 10 Rank	Data available late November 2014	Top 10 Rank	TBD*

TBD\*: To be determined, as final FY 2014 data were not available at the time of publishing.

Our employees are our most valuable asset. Their commitment, along with our partners in DDS sites, allows us to provide dedicated and compassionate services to the public. Each year since 2007, our employees have ranked us in the top 10 [Best Places to Work in the Federal Government \(www.bestplacetowork.org/BPTW/index.php\)](http://www.bestplacetowork.org/BPTW/index.php). Some of the initiatives we are undertaking to remain an employer of choice for top talent include:

**Focusing on the Employment of Veterans and Individuals with Disabilities:** We honor the courage and sacrifice the men and women in our armed forces made during their active service. One of the best ways to recognize our appreciation is by creating civilian employment opportunities, enabling veterans to use the skills they acquired while serving this country. We also recognize the rich talent pool that exists among individuals with disabilities, and we benefit from their experience as we develop strategies to improve our service to the American people.

Each fiscal year, we establish goals for recruiting veterans and individuals with disabilities. Despite recent hiring limitations and budget constraints, we achieved or exceeded our commitments to hiring veterans and disabled workers.

**Highlighting the Pathways Programs (for Students and Recent Graduates to Federal Careers):** Hiring students and recent graduates provides our workplace with new enthusiasm and perspectives. Our Pathways programs serve as a gateway for attracting a talented and diverse workforce that reflects the public we serve. In FY 2014, we hired 20 percent of our employees through opportunities from 3 specific Pathways programs:

- **The Internship program** provides students in high schools, colleges, trade schools, and other qualifying educational institutions with paid opportunities to explore Federal careers while completing their educations.
- **The Recent Graduates program** provides developmental experiences to individuals who, within the previous two years, graduated from qualifying educational institutions.
- **The Presidential Management Fellows program** provides entry-level positions and leadership development for advanced degree candidates and recent advanced degree graduates.

**Creating Management Training:** We have established several programs to sustain a competent and effective group of leaders. Our competency-based Leadership Essentials for New Supervisors training integrates technical skills with leadership competencies and emphasizes performance management. We started this program in April 2014 and approximately 10 percent of our new supervisors participated in this program during FY 2014.

We plan to build and maintain a cadre of leaders who have skills that are transferrable throughout our organization, thereby increasing the flexibility and responsiveness of our leadership. In FY 2015, we expect 50 percent of new supervisors to participate in the training.

**Focusing on Career Development Programs:** Our future depends on developing employees' leadership and management skills throughout their careers. One way we identify and develop potential leaders is through our National Career Development Programs: the Leadership Development Program and the Advanced Leadership Development Program.

These programs target employees with demonstrated leadership potential and strengthen their leadership skills through developmental assignments and formal training. The Leadership Development Program prepares employees for General Series (GS)-11 through GS-13 leadership positions, and the Advanced Leadership Development Program prepares employees for GS-14 and GS-15 leadership positions.

To help our experienced managers prepare for senior-level positions, we offer the Senior Executive Service Candidate Development Program. Our program for senior executives is a key element of our succession management strategy for filling future executive-level leadership vacancies.

**Highlighting Diversity and Inclusion:** We have a long-standing history of being among the most diverse Federal agencies – a goal we achieved through careful planning and recruitment efforts. Our Diversity and Inclusion Strategic Plan highlights proven best practices for attracting, hiring, and retaining a diverse workforce. It also describes how we can foster a work environment that draws on our collective talents, respects individual differences, and leverages diversity.

**Supporting Work/Life Balance:** We are actively making efforts to remain an employer of choice and maintain our ranking among the top 10 Best Places to Work in the Federal Government. We demonstrate our commitment through family friendly policies, work/life services, and employee seminars on personal topics like financial literacy, fitness, stress management, and career development. We have also increased career opportunities across components.

In FY 2014, we implemented a new telework policy allowing employees to work in locations other than their official work locations. We now have 8,547 employees participating in telework.

## **STRATEGIC GOAL 5:** **ENSURE RELIABLE, SECURE, AND EFFICIENT INFORMATION TECHNOLOGY SERVICES**

### **Strategic Objectives**

- Maintain System Performance and the Continuity of Information Technology Services
- Enhance and Execute Plans to Modernize Our Systems
- Incorporate Innovative Advances in Service Delivery
- Continuously Strengthen Our Cyber Security Program



A robust and cost-effective information technology (IT) environment is at the core of every service we provide for the American public and for our employees. We support these mission-critical business and service operations by designing, deploying, and maintaining one of the Nation's most sophisticated IT infrastructures. The following table demonstrates our systems performance.

<b>Provide uninterrupted access to our systems during scheduled times of operation</b>							
<b>Fiscal Year</b>	<b>2010 Actual</b>	<b>2011 Actual</b>	<b>2012 Actual</b>	<b>2013 Actual</b>	<b>2014 Actual</b>	<b>2014 Target</b>	<b>Target Achieved</b>
<b>Performance</b>	99.84% availability	99.89% availability	99.5% availability	99.5% availability	99.97% availability	99.5% availability	MET

Technology is essential to everything we do. Managing high workload volumes while keeping pace with changing technology and new legislation are challenges we routinely face. If our systems experience a problem, our productivity and service immediately decline. Maintaining strong IT performance, while meeting rising demands, increasing cyber security risks, and constant industry changes, is vital. Some of our ongoing efforts to maintain secure and reliable IT services include:

**Enhancing Our Infrastructure:** Our new National Support Center opened in September 2014. Moving into the new state-of-the-art National Support Center is core to future enhancements to our infrastructure. We will begin our service migration to the new computer center in FY 2015. We expect to complete the migration, which will result in increased operational reliability and efficiency, by the end of FY 2016. This facility will dramatically increase computing power, while reducing energy consumption. Innovative heating and cooling systems will help reduce costs by capturing the heat generated from our computer servers and using it to heat the building. We designed the facility to be Leadership in Energy and Environmental Design Gold certified.

**Improving Information Technology Cost and Performance:** We use proven technologies to lower IT cost and improve performance. As part of our capital planning and investment control process, we evaluate the cost of IT projects in terms of their return on investment. We adopt new technologies to provide stable and high-performing environments.

When appropriate, we are leveraging technology including cloud-computing, virtualization, and using open source infrastructure to lower our costs while increasing our performance.

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## LOOKING FORWARD – FACING OUR CHALLENGES

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We have a proud history of providing the highest level of service to the public. For the past 79 years, Social Security has been an integral part of so many lives. Whether we paid a benefit or issued a Social Security number, we have consistently served the public with care and compassion. We are committed to providing world-class service for our customers each time they interact with us. This commitment remains one of our highest priorities.

We remain vigilant in our effort to deliver Social Security services that meet the changing needs of the public. When the *Social Security Act* was signed in 1935, everything was done by hand on paper. Now, we cannot imagine conducting business without technology. As increasing numbers of customers want to conduct business with us online, we must consider technology that will enable us to meet this emerging customer expectation.

While we will continue to serve our customers in the way that is most convenient to them – in an office, over the telephone, or through the Internet – we are especially committed to improving and expanding our online service offerings. We will build on the services we now offer through our convenient and secure online portal, [my Social Security](#).

Much of the improvement in protecting the integrity of our programs will come through technology, such as receiving more of our earnings data electronically and providing greater electronic protection for our customers' information. In addition, we will make greater use of the information and data we have to help us identify fraud and prevent improper payments. We will continue to explore additional use of information from other agencies, as well as from the private sector, to ensure we pay all beneficiaries correctly and securely. We take security threats very seriously and will continue to invest heavily in technologies that strengthen our systems protection, giving our customers confidence in our online services.

Even with the best technology, the achievements of our organization are the results of the combined efforts of our dedicated employees – our greatest asset. We have many of the most customer-focused, compassionate, and resilient employees in government. With a shrinking workforce, our challenge is having employees with the right skills, in the right places, at the right times to achieve our service mission. Our *Human Capital Operating Plan* reflects our renewed commitment to managing our workforce goals. Over the next two years, we will increase our efforts to attract, train, and retain employees that are flexible and ready to provide services to the public through all our delivery channels. It is imperative that we maintain this momentum in positioning our agency for future success.

We will take every available measure to prevent waste, fraud, and abuse from happening, and will prosecute those responsible when it does. We will seek out ways to increase payment accuracy and preserve the integrity of our SSI program by collaborating with Federal partners and stakeholders, continuing to address improper payments through strengthening policies, developing automated prevention and detection processes, and optimizing our existing automated systems. We are steadily tackling the challenging demands of our increasing workloads and limited resources by transforming the way we do business and finding ways to provide services more efficiently.

As we overcome our challenges and move forward with the strategies outlined in our *Agency Strategic Plan*, we have also started setting our long-range strategic vision – our “Vision 2025.” This document will define our strategy for meeting the changing needs of our customers. After defining our vision, we will develop a long-range plan defining the actions needed to achieve our goals.

# HIGHLIGHTS OF FINANCIAL POSITION

## OVERVIEW OF FINANCIAL DATA

We received an unmodified opinion on our financial statements from Grant Thornton, LLP. Our financial statements combined the results from the programs we administer, which include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination), and the Supplemental Security Income (SSI) program. OASI and DI have separate funds, which are financed by payroll taxes, interest on investments, and income taxes on benefits. General revenues from the U.S. Treasury finance SSI. Our financial statements, notes, and additional information appear on pages 43 through 102 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2012 through 2014 (excluding key amounts from our Statement of Social Insurance and Statement of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the Overview of Social Insurance Data section).

<b>Table of Key Financial Measures<sup>1</sup></b> (Dollars in Billions)			
<b>Net Position</b> (end of fiscal year)			
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Total Assets</b>	\$2,828.9	\$2,799.6	\$2,766.5
<b>Less Total Liabilities</b>	\$107.1	\$102.0	\$101.5
<b>Net Position (assets net of liabilities)</b>	\$2,721.8	\$2,697.6	\$2,665.0
<b>Change in Net Position</b> (end of fiscal year)			
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Net Costs</b>	\$906.8	\$867.4	\$822.9
<b>Total Financing Sources<sup>2</sup></b>	\$931.1	\$899.9	\$882.2
<b>Change in Net Position</b>	\$24.2	\$32.6	\$59.3

1. Totals do not necessarily equal the sum of rounded components.

2. Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position displayed on page 46.

**Balance Sheet:** The Balance Sheet displayed on page 44 presents, as of a specific point in time, amounts of economic benefits we own or manage (assets), amounts we owe (liabilities), and residual amounts we retain, comprising the difference (net position).

Total assets for FY 2014 are \$2,828.9 billion, a 1.0 percent increase over the previous year. Of the total assets, \$2,813.0 billion relates to funds from dedicated collections for the OASI and DI programs. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments, which account for approximately 98.4 percent of our assets, increased \$26.5 billion over the previous year.

Liabilities grew in FY 2014 by \$5.1 billion primarily because of the growth in benefits due and payable, which is attributable to the 1.5 percent Cost of Living Adjustment (COLA) provided to beneficiaries as of January 1, 2014, as well as an increase in the numbers of OASI and SSI beneficiaries. The majority of our liabilities (87.7 percent) consist of benefits that have accrued as of the end of the fiscal year, but have not been paid. By statute, payment of OASI and DI program benefits for the month of September does not occur until October. Our net position grew \$24.2 billion to \$2,721.8 billion, reflecting the higher growth in assets than liabilities.

**Statement of Net Cost:** The Statement of Net Cost displayed on page 45 presents the annual cost of operating our three major programs: OASI, DI, and SSI. The Other category on the Statement of Net Cost consists primarily of our administrative costs not related to the OASI, DI, and SSI programs and contains non-material activities.

Our net cost of operations includes the gross costs we incurred less any exchange revenue earned from activities. In FY 2014, our total net cost of operations increased \$39.4 billion to \$906.8 billion, primarily due to the 1.5 percent COLA provided to beneficiaries as of January 1, 2014, as well as an increase in the numbers of OASI and SSI beneficiaries. The OASI, DI, and SSI net cost increased by 5.2 percent, 2.3 percent, and 2.8 percent respectively. Operating expenses increased for each of our three major programs by 0.8 percent, 0.1 percent, and 3.7 percent for OASI, DI, and SSI, respectively.

In FY 2014, our total benefit payments increased by \$39.3 billion, a 4.6 percent increase. The table below provides the benefit payment information, number of beneficiaries, and the percentage change for these benefit items during FY 2014 and FY 2013 for each of our three major programs.

Benefit Changes in Our Major Programs During Fiscal Years 2014 and 2013			
	FY 2014	FY 2013	% Change
<b>OASI</b>			
Benefit Payments	\$701,037	\$666,387	5.2%
Average Benefit Payment (per month)	\$1,235.39	\$1,204.39	2.6%
Number of Beneficiaries	47.84	46.75	2.3%
<b>DI</b>			
Benefit Payments	\$142,594	\$139,262	2.4%
Average Benefit Payment (per month)	\$1,000.36	\$982.08	1.9%
Number of Beneficiaries	10.92	10.95	(0.3)%
<b>SSI</b>			
Benefit Payments	\$50,844	\$49,496	2.7%
Monthly Maximum Benefit Amount	\$721.00	\$710.00	1.6%
Number of Beneficiaries	8.41	8.38	0.4%

1. Benefit payments and the number of beneficiaries are presented in millions.

2. The average benefit payment per month for OASI and DI programs and the monthly maximum benefit amount for the SSI program are presented in actual dollars.

**Statement of Changes in Net Position:** The Statement of Changes in Net Position displayed on page 46 presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. The Statement shows an increase of \$24.2 billion in the net position of our agency, which is attributable to financing sources in excess of our agency's net cost. At this time, tax revenues and interest earned continue to exceed benefit payments made to OASDI beneficiaries, keeping the agency's programs solvent. Through the first quarter of FY 2013, the Payroll Tax Holiday legislation provided employees a reduction in *Federal Insurance Contributions Act* tax withholdings, reducing rates from 6.2 percent to 4.2 percent for the 2011 and 2012 tax years (January-December). In order to avoid harming the OASI and DI Trust Funds, the legislation also provided the transfer of funds by the Department of the Treasury from general revenues to the OASI

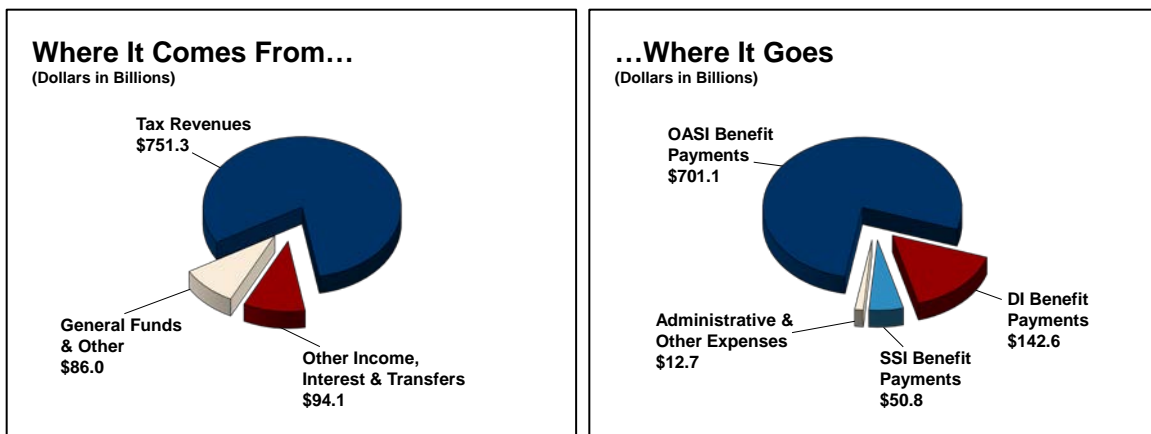


and DI Trust Funds. The expiration of this legislation at the end of the first quarter of FY 2013 resulted in increased tax revenues and decreased transfers when comparing FY 2014 and FY 2013 on the financial statements.

We use most of the resources available to us to finance current OASDI benefits and to accumulate investments to pay future benefits. When we need funds to pay administrative expenses or benefit entitlements, we redeem investments to supply cash to cover the outlays. Our administrative expenses as a percent of benefit expenses are 1.4 percent.

In FY 2014, total financing sources, as shown in the Table of Key Financial Measures displayed on page 25, increased by \$31.2 billion to \$931.1 billion. The primary source for this increase is additional tax revenues received in FY 2014. The \$931.1 billion in total financing sources from the Statement of Changes in Net Position will not match the amounts reported in the chart “Where It Comes From...” as seen below. The activity reported in the chart includes \$0.3 billion in exchange revenue. Our exchange revenues primarily include payments of fees we receive from States choosing to have us administer their State Supplementation of Federal SSI benefits. These amounts are reported on the Statement of Net Cost and are not classified as a financing source.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the sources and uses of funds for FY 2014.

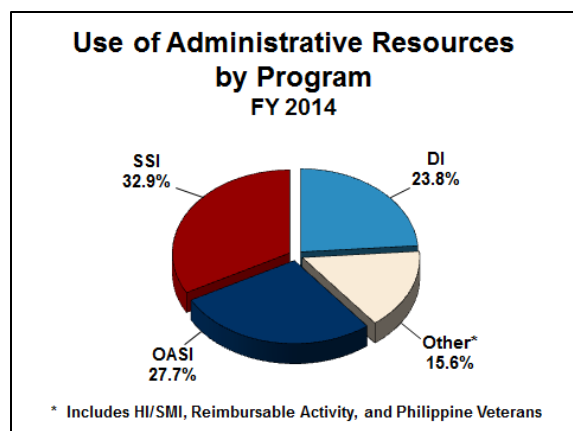


**Statement of Budgetary Resources:** The Statement of Budgetary Resources displayed on page 47 provides information on the budgetary resources available to our agency for the year and shows the status of those resources at the end of FY 2014. The Statement shows that we had \$957.5 billion in budgetary resources, of which \$2.7 billion remained unobligated at year-end. We recorded total net outlays of \$905.8 billion by the end of the year. Budgetary resources increased \$12.5 billion, or 1.3 percent, from FY 2013, while net outlays increased \$38.4 billion, or 4.4 percent. The increase in budgetary resources is primarily due to an increase in tax revenues, offset by a decrease in transfers resulting from the expiration of the Payroll Tax Holiday legislation in FY 2013. The increase in net outlays is primarily due to the 1.5 percent COLA provided to beneficiaries as of January 1, 2014, as well as an increase in the numbers of OASI and SSI beneficiaries.

## USE OF ADMINISTRATIVE RESOURCES

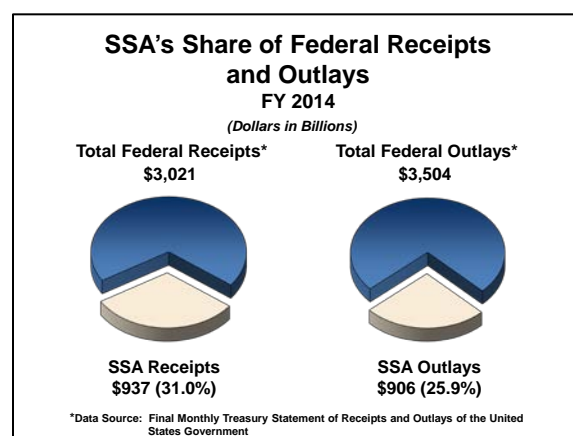
The chart on the next page displays the use of all administrative resources (including general operating expenses) for FY 2014 in terms of the programs we administer or support. Although the DI program comprises only 15.9 percent of the total benefit payments we make, it consumes 23.8 percent of annual administrative resources. Likewise, while the SSI program comprises only 5.7 percent of the total benefit payments we make, it consumes 32.9 percent

of annual administrative resources. State disability determination services decide whether the claimants for DI and SSI disability benefits are disabled. In addition, disability determination services perform continuing disability reviews of individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2013 use of administrative resources by program was 27.7 percent for the OASI program, 24.0 percent for the DI program, 32.1 percent for the SSI program, and 16.2 percent for Other.



## SSA'S SHARE OF FEDERAL OPERATIONS

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government, as shown in the chart to the right. Receipts for our programs in FY 2014 represented 31.0 percent of the \$3.0 trillion in total Federal receipts, a decrease of 1.7 percent over last year. Outlays increased by 0.8 percent to 25.9 percent of Federal outlays as SSA beneficiaries received a 1.5 and 1.7 percent COLA increase in FY 2014 and FY 2013 respectively.



## OVERVIEW OF SOCIAL INSURANCE DATA

Table of Key Social Insurance Measures <sup>1</sup> (Dollars in Billions)			
Statement of Social Insurance Old-Age, Survivors, and Disability Insurance (calendar year basis)			
	2014	2013	2012
Present value of future net cashflows <sup>2</sup> for current and future participants over the next 75 years (open group measure), current year valuation	-\$13,330	-\$12,294	-\$11,278
Present value of future net cashflows <sup>2</sup> for current and future participants over the next 75 years (open group measure), prior year valuation	-\$12,294	-\$11,278	-\$9,157
Change in present value	-\$1,035	-\$1,016	-\$2,121

1. Totals do not necessarily equal the sum of rounded components.

2. Future net cashflows are estimated over the appropriate 75-year period.

**Statement of Social Insurance:** As displayed on page 48, the Statement of Social Insurance presents the following estimates:

- The present value of estimated future noninterest income to be received from or on behalf of current participants who have attained retirement eligibility age and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income to be received from or on behalf of current participants who have not yet attained retirement eligibility age and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income less estimated future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, *plus* the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period;
- The present value of estimated noninterest income to be received from or on behalf of future participants and the cost of providing scheduled benefits to those same individuals; and
- The present value of estimated future noninterest income less estimated future cost for the open group, which represents all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the OASDI programs, *plus* the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period.

The magnitude of the present value of estimated future net cashflows (estimated noninterest income less estimated cost) for all current and future participants over the next 75 years (open group measure) increased when changing to the new valuation period. The magnitude of the present value changed from \$12.3 trillion, as of January 1, 2013, to \$13.3 trillion, as of January 1, 2014. Including the asset reserves in the combined OASI and DI Trust Fund decreases this open group measure, in magnitude, to \$10.6 trillion for the 75-year valuation period.

The present value of estimated future net cashflows for all current participants over the next 75 years, *plus* the asset reserves in the combined OASI and DI Trust Fund as of the beginning of the period, is, in magnitude, \$25.1 trillion (closed group measure). Including future participants over the next 75 years decreases this value, in magnitude, and results in an open group measure of \$10.6 trillion.

**Statement of Changes in Social Insurance Amounts:** The Statement of Changes in Social Insurance Amounts displayed on page 49 reconciles the change (between the current valuation period and the prior valuation period) in the present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes.

**From January 1, 2013 to January 1, 2014:** The present value as of January 1, 2014 decreased (became more negative) by \$0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2088. Changes for this valuation period, and their effects on the present value of estimated future net cashflows, are as follows:

- Changes in demographic data, assumptions, and methods increased the present value of estimated future net cashflows by \$0.2 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cashflows by \$0.6 trillion;
- Changes in programmatic data, assumptions, and methods decreased the present value of estimated future net cashflows by about \$0.1 trillion; and
- Changes to legislation decreased the present value of estimated future net cashflows by less than \$0.1 trillion.

Significant changes made for the current valuation included:

- The ultimate annual rate of change in the Consumer Price Index for Urban Wage Earners and Clerical Workers is assumed to be 2.7 percent per year in the current valuation period, compared to 2.8 percent per year in the previous valuation period;
- Projected labor force participation rates for the older population are slightly lower for the current valuation in order to better reflect the difference in participation rates between never-married and married populations and the projected improvement in life expectancy; and
- The effects of the Supreme Court's decision in the *United States v. Windsor* case.

**From January 1, 2012 to January 1, 2013:** The present value as of January 1, 2013 decreased (became more negative) by \$0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2087. Changes for this valuation period, and their effects on the present value of future net cashflows, are as follows:

- Changes in demographic data, assumptions, and methods decreased the present value of estimated future net cashflows by \$0.7 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cashflows by \$0.3 trillion;
- Changes in programmatic data, assumptions, and methods increased the present value of estimated future net cashflows by about \$1.0 trillion; and
- Changes from legislation decreased the present value of estimated future net cashflows by \$0.6 trillion.

Significant changes made for this valuation period included:

- Final mortality data for 2008 and 2009, which led to lower starting levels and a faster rate of decline for death rates over the next 25 years;
- Modeling the insured status of citizens and legal permanent residents separately from other immigrants; and
- The effects of the *American Taxpayer Relief Act of 2012*.

## OASI AND DI TRUST FUND SOLVENCY

### PAY-AS-YOU-GO FINANCING

The OASI and DI Trust Funds are deemed solvent as long as asset reserves are sufficient to finance program obligations in full and on a timely basis. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund asset reserves. In recent years, current income has exceeded program obligations for the OASDI program; therefore, the combined OASI and DI Trust Fund asset reserves have been growing. The table on the following page shows that OASI and DI Trust Fund asset reserves, expressed in terms of the number of months of program obligations that these asset reserves could finance, has been declining slowly, from 42.5 months at the end of FY 2010, to 41.2 months at the end of FY 2011, to 40.1 months at the end of FY 2012, and to estimated values of 38.8 and 37.1 months at the end of FYs 2013 and 2014, respectively. The historical values shown in the table for the DI Trust Fund have declined in recent years because expenditures have increasingly exceeded income. This trend is projected to continue in FY 2013 and 2014.

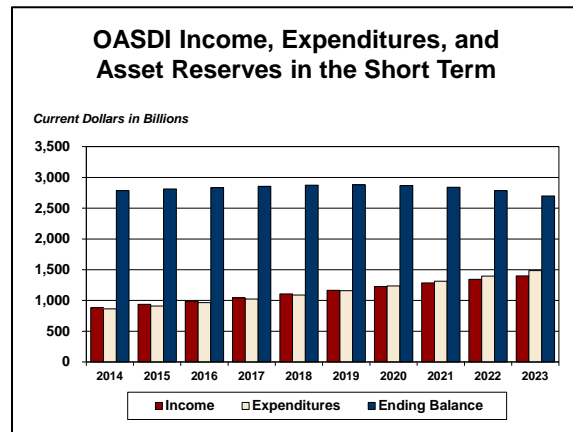
Number of Months of Expenditures Fiscal-Year-End Asset Reserves Can Pay <sup>1</sup>					
	2010	2011	2012	2013	2014
<b>OASI</b>	48.0	47.1	46.3	45.1	43.5
<b>DI</b>	17.1	14.0	11.1	8.3	5.5
<b>Combined</b>	42.5	41.2	40.1	38.8	37.1

1. Computed as 12 times the ratio of end-of-year asset reserves to outgo in the following fiscal year.

Note: Values for FYs 2013 and 2014 are estimates based on the intermediate set of assumptions of the 2014 Trustees Report.

## SHORT-TERM FINANCING

A trust fund for a program is deemed adequately financed for the short term when actuarial estimates of its asset reserves for the beginning of each calendar year are at least as large as the program's obligations for the year. Estimates in the 2014 Trustees Report indicate that, on a theoretical combined basis, the OASI and DI Trust Funds are adequately financed over the next 10 years. While asset reserves in the OASI Trust Fund are more than adequate to cover projected DI Trust Fund cost over the first 10 years of the projection period, the transfer of asset reserves between funds is not allowed under current law. When considered alone, financing of the DI Trust Fund is inadequate, and without remedial action, the fund asset reserves are expected to deplete in 2016. Under the intermediate assumptions of the 2014 Trustees Report, OASDI estimated cost and income for 2023 are 80 percent and 64 percent higher than the corresponding amounts in 2013 (\$823 billion and \$855 billion, respectively). From the end of 2013 to the end of 2023, asset reserves are projected to slightly decrease by 2 percent, from \$2.8 trillion to \$2.7 trillion.



## LONG-TERM FINANCING

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2033, the combined OASI and DI Trust Fund asset reserves will be depleted according to the projections by Social Security's Trustees. Under current law, when the DI Trust Fund reserves deplete, full scheduled DI benefits cannot be paid on a timely basis. Similarly, when the OASI Trust Fund reserves deplete, full scheduled OASI benefits cannot be paid on a timely basis. Tax revenues are projected to be sufficient to support expenditures at a level of 77 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2033, declining to 72 percent of scheduled benefits in 2088.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers approaching retirement. In present value terms, the 75-year shortfall is \$10.6 trillion, which is 2.7 percent of taxable payroll and 1.0 percent of Gross Domestic Product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

- Increasing payroll taxes;
- Slowing the growth in benefits;
- Finding other revenue sources (such as general revenues); or

- Increasing expected returns by investing the OASI and DI Trust Fund asset reserves, at least in part, in private securities.

Significant uncertainty surrounds the estimates for the Statement of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near term and ultimate assumptions used in the projections. For more information, pages 90 through 102 contain the *Required Supplementary Information: Social Insurance* disclosures required by the Federal Accounting Standards Advisory Board.

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## LIMITATIONS OF THE FINANCIAL STATEMENTS

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The principal financial statements beginning on page 43 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Social Security Administration in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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## SUMMARY OF IMPROPER PAYMENTS INFORMATION

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### BACKGROUND

The *Improper Payments Information Act of 2002* (IPIA), Public Law 107-300, requires Federal agencies to report annually on the extent of the improper payments in programs susceptible to significant improper payments and the actions to reduce such payments.

OMB guidance on IPIA implementation requires us to report improper payment information for the OASI, DI, and SSI programs. We report identified OASI and DI improper payments even though the level of such payments in these programs has continually been well below the threshold cited in IPIA.

President Obama signed the *Improper Payments Elimination and Recovery Act* (IPERA) into law on July 22, 2010. On April 14, 2011, OMB issued implementing guidance for IPERA. IPERA amends IPIA and further increases our accountability, transparency, reporting of improper payments, and reporting on our payment recapture auditing efforts.

### RECOVERY AUDIT PROGRAM

For our OASI, DI, and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts and workloads. Because of our in-house internal controls for improper payments and the complexity of these programs, we have no plans to contract for a private sector payment recapture auditing firm. This approach complies with IPERA requirements for payment recapture audits.

We also use an existing in-house recovery audit program for administrative contractual payments. Our internal recovery audit program complies with OMB guidance and employs a number of tools to aid in the detection and recovery of improper overpayments. To further enhance our internal controls over administrative payments, on November 2, 2011, we awarded a payment recapture audit contingency contract for review of our administrative



payments. We have published the results of the audit in this *Agency Financial Report* and our *FY 2014 Annual Payment Recapture Audit Report* to Congress.

## **AGENCY EFFORTS AND FUTURE PLANS**

We have multiple efforts underway to prevent, detect, and recover our improper payments. As required by IPERA, effective FY 2012, we are also holding managers, program officials, and senior executives accountable for reducing improper payments. For affected employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent, detect, and recover improper payments and meet targets to reduce improper payments.

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a sample of OASI, DI, and SSI cases to determine payment accuracy rates. Stewardship review findings provide the data necessary to meet the IPIA reporting requirements, as well as data for other reports to monitoring authorities. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We also provide payment accuracy rates for current and previous reporting periods.

For the past five years, OASDI payments have been very accurate. However, the sheer magnitude of the payments made in the OASDI program, approximately \$824 billion in FY 2013, means that even a small percentage of error results in substantial improper payments. In FY 2013, the OASDI overpayment accuracy rate was 99.8 percent, representing projected overpayments of \$1.9 billion, and the underpayment accuracy rate was 99.9 percent, or \$1.1 billion in projected underpayments. Each tenth of a percentage point in payment accuracy represents about \$824 million in OASDI program outlays.

In the SSI program, the overpayment accuracy rate increased over a 5-year period, FY 2009 through FY 2013, from 91.6 percent to 92.4 percent. We based the FY 2013 rate of 92.4 percent on overpaid dollars totaling a projected \$4.2 billion. In FY 2013, the SSI underpayment accuracy rate was 98.3 percent based on underpaid dollars totaling a projected \$0.9 billion. Our SSI overpayment accuracy rate was 98.2 percent for FY 2012. For FY 2013, each tenth of a percentage point in payment accuracy represented about \$55.3 million in SSI program outlays.

The following are examples of initiatives to improve payment accuracy in the OASDI and SSI programs. We provide additional information, as well as other corrective actions we have taken, in the *Improper Payments Information Detailed Report* in the *Other Information* section.

### **EXAMPLES OF OASDI IMPROPER PAYMENT INITIATIVES**

- To address errors because of substantial gainful activity (SGA) (Note: [A definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html](http://www.socialsecurity.gov/oact/cola/sga.html)), we developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. The predictive model will help us prioritize staff resources to work high-risk cases first and reduce the amount of work-related overpayments. Evaluation of the predictive model has shown that we are targeting the right population.
- To increase our post-entitlement accuracy, we introduced an inline quality review in four of our processing centers. If we find that our payment and processing accuracy has improved, we will expand its use to the remaining three processing centers in July 2015.

### **EXAMPLES OF SSI IMPROPER PAYMENT INITIATIVES**

- We fully implemented the expansion of our Access to Financial Institutions (AFI) process in October 2013. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources. In FY 2013, we further lowered the AFI threshold to verify liquid financial resources and increased undisclosed bank account searches. We are currently evaluating the effect of the lower tolerance on the AFI program.

- We experience continued increased use of the SSI Telephone Wage Reporting (SSITWR) initiative, which we implemented in FY 2008. SSITWR allows recipients (or their parents, spouses, or representative payees) to report their monthly wage amounts via a completely automated system that ensures we receive the wage information timely. As a result of feedback we received during the pilot, we made some minor system improvements prior to our national rollout. In FY 2013, we rolled out the SSI Mobile Wage Reporting Smartphone Application, which allows SSI recipients (or their parents, spouses, or representative payees) to use their smartphones to report prior monthly gross wages by using an application the reporter can download at no charge from the Google Play and Apple App stores.
- In FY 2013, we developed a pilot in 100 of our field offices to identify undisclosed real property owned by SSI recipients. The pilot will provide information on cost savings and the feasibility of expansion to other field offices. We are currently analyzing the data from the pilot. The pilot results will determine our next steps for expansion.

# SYSTEMS AND CONTROLS

## MANAGEMENT ASSURANCES

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ASSURANCE STATEMENT FISCAL YEAR 2014

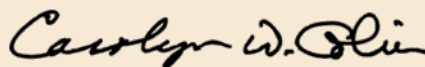
Management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). We assessed the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*. Based on our evaluation, we can provide reasonable assurance that our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2014 was operating effectively, and we found no material weaknesses in the design or operation of the internal controls.

Our financial statement auditors found that we made significant progress in strengthening controls over our information systems to address the significant deficiency cited last year. However, in accordance with the *Federal Information Security Management Act* (FISMA), we are reporting that Grant Thornton, LLP cited the remaining deficiency in our information systems controls as a significant deficiency under FISMA. FISMA requires that we report this finding as a material weakness under FMFIA and an instance of a lack of substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) if related to financial management systems.

We do not agree that the significant deficiency rises to the level of a material weakness under FMFIA. We do not believe the identified deficiency adversely affects our ability to meet the internal control objectives of FMFIA as noted by the assurances provided in this statement. We also believe the identified finding does not affect our ability to meet the FFMIA requirements to maintain financial systems that substantially comply with Federal financial system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining deficiency and build on our progress to date.

In accordance with the requirements of OMB Circular No. A-123, Appendix A, we assessed the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of our annual financial statements, safeguarding of assets, and compliance with applicable laws and regulations governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements. The result of this evaluation provides reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2014.

We also conduct reviews of financial management systems. Based on the results of these reviews, we can provide reasonable assurance that our financial management systems comply with the applicable provisions of the FMFIA as of September 30, 2014.



Carolyn W. Colvin  
Acting Commissioner  
November 10, 2014

## **AGENCY FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM**

We have a well-established, agency-wide management control and financial management systems program as required by the *Federal Managers' Financial Integrity Act* (FMFIA). We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses and monitoring those plans until completion.

Our managers are responsible for ensuring effective internal control in their areas of responsibility. We require senior-level executives to submit an annual statement to the Acting Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended and that there were no major weaknesses that would require reporting, or a statement indicating they could not provide such assurance. This executive accountability assurance provides an additional basis for the Acting Commissioner's annual assurance statement.

Our Executive Internal Control Committee, consisting of senior managers, ensures our compliance with FMFIA and other related legislative and regulatory requirements. If we identify a major control weakness, the Executive Internal Control Committee determines if the weakness is a material weakness that they would need to forward to our agency head for a final determination on whether to report a material weakness.

We incorporate effective internal controls into our business processes and financial management systems through the life cycle development process. We incorporate the necessary controls into the user requirements, certify the controls are in place by having management review the new or changed processes and systems, and test the controls prior to full implementation to ensure they are effective.

We identify management control issues and weaknesses through audits, reviews, studies, and observation of daily operations. We conduct internal reviews of management and systems security controls in our administrative and programmatic processes and financial management systems. These reviews evaluate the adequacy and efficiency of our operations and systems, and provide an overall assurance that our business processes are functioning as intended. The reviews also ensure management controls and financial management systems comply with the standards established by FMFIA and Office of Management and Budget (OMB) Circular Nos. A-123 and A-130.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section for more information.

## **MANAGEMENT CONTROL REVIEW PROGRAM**

In compliance with OMB Circular No. A-123, we have an agency-wide review program for management controls in our administrative and programmatic processes. The reviews encompass our business processes, such as enumeration, earnings, claims and post-entitlement events, and debt management. We conduct these reviews at our field offices, processing centers, hearings offices, and at the State disability determination services. These reviews indicate our management control review program is effective in meeting management's expectations for compliance with Federal requirements.

## FINANCIAL MANAGEMENT SYSTEMS REVIEW PROGRAM

The agency maintains a financial management systems inventory and conducts reviews of the financial management systems to ensure they meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a five-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2014, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Acting Commissioner determined that our financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* for FY 2014. In making this determination, she considered all the information available, including the auditor's opinion on our FY 2014 financial statements, the report on management's assertion about the effectiveness of internal controls, and the report on compliance with laws and regulations. She also considered the results of our management control reviews and financial management systems reviews conducted by our independent contractor.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section for more information.

## FINANCIAL STATEMENT AUDIT

The Office of the Inspector General (OIG) contracted with Grant Thornton, LLP for the audit of our FY 2014 financial statements. The auditor found we present fairly the basic financial statements, in all material respects, in conformity with accounting principles generally accepted in the United States of America for Federal entities.

In this year's financial statement audit, Grant Thornton cited a significant deficiency in our information systems controls in its opinion on internal control over financial reporting. We concur with the recommendations. We will continue to pursue a risk-based corrective action plan to address the remaining deficiency, and build on our progress to date.

Grant Thornton also found deficiencies in our calculation, recording, and prevention of overpayments that, when aggregated, it considered a significant deficiency and provided recommendations to remediate the deficiencies. We concur with the recommendations and will continue to improve our benefit payment oversight.

Please refer to the *Auditor's Reports* section for more information on the auditors' findings and our plans to correct the findings.

Grant Thornton reported its finding of significant deficiency in information systems controls as a significant deficiency under the *Federal Information Security Management Act* (FISMA). We acknowledge the finding identified by Grant Thornton and reported it in accordance with OMB Memorandum M-15-01.

## FEDERAL INFORMATION SECURITY MANAGEMENT ACT

FISMA requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. This year's report is due by November 14, 2014. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration's cybersecurity priorities, and the results of other work performed during the reporting period using OMB's performance measures. During FY 2014, we strengthened our information security program by implementing and improving our management controls to correct deficiencies cited by our Inspector General in our prior year financial statement audit. For the FY 2014 financial statement audit,

Grant Thornton identified a significant deficiency in our information systems and cited this finding as a significant deficiency under FISMA.

## **FINANCIAL MANAGEMENT SYSTEMS STRATEGY**

Over the years, we have worked hard to improve our financial management practices. We continue to develop new initiatives to enhance the existing financial and management information systems. Our actions demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. Going forward, our goal is to achieve government-wide and internal financial management milestones established for improvement.

Annually, we review and update our financial management systems inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of 12 financial management systems under the broad categories of Program Benefits, Debt Management, or Financial/Administrative and continue the long-term development of our financial management systems following a defined strategy. For example, in the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

In the Debt Management category, we continue to enhance our systems to recover program debt. We developed the External Collection Operation (ECO) system to select and refer our delinquent program overpayments to the Department of the Treasury (Treasury) for recovery through the Treasury Offset Program (TOP), for credit bureau reporting, and for Administrative Wage Garnishment. Since 2010, we have worked to improve the ECO system through a three-phased approach. Phase I, implemented in July 2010, enabled us to collect delinquent Supplemental Security Income debts from a population of debtors previously excluded from the automated ECO selection process. We implemented Phase II of the ECO Enhancements in May 2012. Phase II allows us to select debts 10 years or more delinquent for referral to TOP, as authorized by Public Law 110-246 and 31 U.S.C. 3716. Phase III, implemented in September 2013, allows us to collect delinquent debts by offsetting eligible State payments through TOP.

We are now working to improve our ECO system through the ECO Address Verification project and the ECO Modernization project. The ECO Address Verification project will verify the address of newly selected delinquent debtors before sending the ECO pre-offset notice. This project will allow us to reach a larger percentage of our debtors on our initial attempt to notify them of a potential offset of a Federal or State payment. The ECO Modernization project will enable ECO to select and store debts at an individual debt level rather than at the record level and ensure that we are referring all of our eligible delinquent debt to Treasury for collection.

For the Financial/Administrative systems category, OMB Memorandum M-10-26 provided guidance on dividing financial system implementation projects into smaller, simpler segments with clear deliverables, focusing on the most critical business needs first, and having ongoing, transparent project oversight. Since the inception of the Social Security Online Accounting and Reporting System (SSOARS) project, our approach to implementation, modernization, and maintenance has been, and will continue to be, consistent with these principles.

SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. SSOARS was the first Federal agency accounting system to successfully achieve Federal Financials Release 12, and SSOARS has been upgraded to Release 12.1.3, the most recent release of the software. To provide functionality necessary to comply with new Treasury reporting requirements, in FY 2014 we completed implementation of the Government-wide Treasury Account Symbol Adjusted Trial Balance System in SSOARS.

We implemented a new subsystem, the Social Security Electronic Remittance System (SERS), to collect administrative fees in all field offices. SERS fits our agency's vision to eliminate cash transactions, use card swipe and check scanner technology, and adopt processes that are prevalent throughout the banking and retail sectors. SERS is fully integrated with SSOARS and Treasury systems that track collection activity. The phased rollout of



SERS to the field offices is underway, and we plan to complete the full nationwide rollout by the end of the December 2014.

Finally, we continued to replace the outdated and unsupported technology used for the SSOARS Financial Information System (FIS). SSOARS FIS is used agency-wide to access the spending data recorded in SSOARS. The new technology will feature:

- Improved security;
- Faster access to the homepage for new users;
- Fewer forms, tabs, and links for easier navigation; and
- Simplified report queries with user-configurable forms.

We expect to complete the implementation in December 2014.

We plan to replace the SSOARS infrastructure with state-of-the-art servers that will consolidate software programs and consume less energy. We acquired a portion of this new hardware and expect to complete the full acquisition in time for the SSOARS move to the new National Support Center in Urbana, Maryland.

## **NATIONAL ANTI-FRAUD COMMITTEE**

For many years, our regional offices have successfully collaborated with regional OIG agents and local law enforcement on regional anti-fraud committees (RAFC). On April 3, 2014, the Acting Commissioner approved and signed a charter that reinstituted the National Anti-Fraud Committee (NAFC), co-chaired by the Inspector General and our Deputy Commissioner for Budget, Finance, Quality, and Management. The NAFC leads and supports national and regional strategies to combat fraud, waste, and abuse. Support includes, but is not limited to, the following:

- Providing an open forum for agency senior executives to collaborate and develop agency-level strategies to address fraud challenges;
- Considering best practices, benchmarking, and new or evolving technology and analytical techniques to help prevent and detect fraud;
- Ensuring that the agency addresses the most critical vulnerabilities related to fraud;
- Evaluating potential anti-fraud initiatives introduced by the RAFCs, workgroups, and employee suggestions; and
- Visibly demonstrating the agency's commitment to combatting fraud and fostering public confidence in the stewardship of our programs.

Since inception, the NAFC has met regularly to discuss our various anti-fraud initiatives and strategies. On September 18, 2014, the NAFC co-chairs hosted a National Anti-Fraud Conference. The goal of the National Anti-Fraud Conference was to establish and maintain synergy among the NAFC and RAFCs to jointly combat fraud, waste, and abuse. Discussions involved ways the NAFC, RAFCs, and OIG communities can collaborate and partner on important initiatives, communicate lessons learned, and use our resources effectively.

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# FINANCIAL SECTION



## A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



In fiscal year (FY) 2014, we upheld our strong commitment to excellence in financial reporting and accountability and received our 21<sup>st</sup> consecutive unmodified audit opinion on our financial statements. The unmodified opinion confirms that our financial statements fairly present the financial position of our agency and that they are free of material misstatement. We are dedicated to being responsible stewards of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds, and general taxpayer dollars, as we remain focused on achieving our mission.

We also received an unmodified opinion from our independent auditor on our assertion that our internal control over financial reporting was operating effectively during FY 2014. The independent auditor determined that we had no material weaknesses, but did continue to identify two significant deficiencies. The first concerns our information systems controls and the second relates to our calculation, recording, and prevention of overpayments. We are committed to resolving these deficiencies as quickly as possible. We will continue implementing our risk-based corrective action plans to strengthen our control environment and mitigate risks. Additional information on the auditors' findings and our corrective actions is available in both the *Systems and Controls* and *Auditor's Reports* sections of this report.

In FY 2014, we continued to pursue information technology advancements to ensure relevant, reliable, and timely accounting and management information. We enhanced our accounting system by adding functionality to collect standard fees for the non-programmatic services we provide. This enhancement allows beneficiaries and members of the public to pay for these services by check or credit card. We converted the interface for our nationwide administrative payment system from legacy technology to Web Service technologies. We are nearing completion of the replacement of our financial reporting system by migrating to the latest software. This migration will provide improved security, faster access to data, and simplified report queries for system users.

As a demonstration of our commitment to combatting fraud, waste, and abuse in our programs, we reestablished the National Anti-Fraud Committee (NAFC), for which I am a co-chair along with the Inspector General. The NAFC supports our agency's stewardship accountabilities and our policy of zero-tolerance for fraud. Through the NAFC, we emphasize superior financial performance and integrity in all payments, records, and processes. We are also making significant progress in support of the Administration's Freeze the Footprint initiative. We were able to reduce our real property footprint and consolidate staff from many leased locations into existing agency-owned space. While we continue to evaluate potential consolidations and pursue them where it makes good business sense, we remain committed to providing face-to-face service to members of the public who need or prefer such service.

In recognition of our commitment to transparency and accountability, the Association of Government Accountants awarded us the Certificate of Excellence in Accountability Reporting for our *FY 2013 Agency Financial Report*. We have received this prestigious award for 16 consecutive years.

Our talented employees remain dedicated to setting a high standard in financial management by practicing sound fiscal policies. We will continue to implement and support the agency's strategic direction, programs, and systems, while maintaining strong stewardship of the funds entrusted to us by the American people.

A handwritten signature in black ink that reads "Peter D. Spencer".

Peter D. Spencer  
Chief Financial Officer  
November 10, 2014

# FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Our agency's financial statements and additional information for fiscal years (FY) 2014 and 2013 consist of the following:

- The **Consolidated Balance Sheets** present, as of September 30, 2014 and 2013, amounts of economic benefits we owned or managed (assets), amounts we owed (liabilities), and residual amounts we retained, comprising the difference (net position). We provide a Balance Sheet by Major Program as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of operations for the years ended September 30, 2014 and 2013. Our net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by our major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. We provide a Schedule of Net Cost to show the components of net cost activity as additional information.
- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2014 and 2013. Changes to the two components of net position, Cumulative Results of Operations and Unexpended Appropriations, affect its balance. The Statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. We provide a Schedule of Changes in Net Position to present the change in net position by major programs as additional information.
- The **Combined Statements of Budgetary Resources** present the budgetary resources available to us, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2014 and 2013. We provide an additional Schedule of Budgetary Resources as Required Supplementary Information to present budgetary resources by major programs.
- The **Statement of Social Insurance** presents the present value for the 75-year projection period of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) estimated future noninterest income and cost expected to arise from the formulas specified in current law for current and future program participants. We present the difference between these values on both an open group and a closed group basis, both including and excluding the value of the combined OASI and DI Trust Fund asset reserves at the beginning of the period.
- The **Statement of Changes in Social Insurance Amounts** reconciles the changes, from one 75-year valuation period to the next, in the present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure). The Statement shows two reconciliations: (1) changing from the period beginning on January 1, 2013 to the period beginning on January 1, 2014; and (2) changing from the period beginning on January 1, 2012 to the period beginning on January 1, 2013. This Statement identifies several changes that are significant and provides reasons for the changes.
- The **Required Supplementary Information: Social Insurance** presents required long-range cashflow projections, the long-range projections of the ratio of contributors to beneficiaries, and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures include a narrative describing the program, including how the program is financed and how benefits are calculated, as well as an interpretive analysis of trends revealed by the data.

**Consolidated Balance Sheets as of  
September 30, 2014 and 2013**  
(Dollars in Millions)

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Intragovernmental:		
Fund Balance with Treasury (Notes 3 and 4)	\$ 4,892	\$ 1,896
Investments (Note 5)	2,782,918	2,756,390
Interest Receivable (Note 5)	24,052	25,072
Accounts Receivable, Net (Note 6)	391	568
Other (Note 8)	19	24
Total Intragovernmental	2,812,272	2,783,950
Accounts Receivable, Net (Notes 3 and 6)	13,186	12,240
Property, Plant, and Equipment, Net (Note 7)	3,476	3,422
Other (Note 8)	4	3
<b>Total Assets</b>	<b>\$ 2,828,938</b>	<b>\$ 2,799,615</b>
<b>Liabilities (Note 9)</b>		
Intragovernmental:		
Accrued Railroad Retirement Interchange	\$ 4,490	\$ 4,505
Accounts Payable	6,871	6,236
Other	145	106
Total Intragovernmental	11,506	10,847
Benefits Due and Payable	93,903	89,404
Accounts Payable	481	474
Federal Employee and Veteran Benefits	348	368
Other	874	955
Total Liabilities	107,112	102,048
Contingencies (Note 9)		
<b>Net Position</b>		
Unexpended Appropriations - All Other Funds	1,946	262
Cumulative Results of Operations - Funds from Dedicated Collections (Note 10)	2,718,230	2,695,832
Cumulative Results of Operations - All Other Funds	1,650	1,473
Total Net Position - Funds from Dedicated Collections (Note 10)	2,718,230	2,695,832
Total Net Position - All Other Funds	3,596	1,735
Total Net Position	2,721,826	2,697,567
<b>Total Liabilities and Net Position</b>	<b>\$ 2,828,938</b>	<b>\$ 2,799,615</b>

The accompanying notes are an integral part of these financial statements.



**Consolidated Statements of Net Cost for the Years Ended  
September 30, 2014 and 2013**  
(Dollars in Millions)

	2014	2013
<b>OASI Program</b>		
Benefit Payment Expense	\$ 701,037	\$ 666,387
Operating Expenses (Note 11)	3,521	3,493
Total Cost of OASI Program	704,558	669,880
Less: Exchange Revenues (Notes 12 and 13)	(13)	(14)
<b>Net Cost of OASI Program</b>	<b>704,545</b>	<b>669,866</b>
<b>DI Program</b>		
Benefit Payment Expense	142,594	139,262
Operating Expenses (Note 11)	3,023	3,019
Total Cost of DI Program	145,617	142,281
Less: Exchange Revenues (Notes 12 and 13)	(37)	(41)
<b>Net Cost of DI Program</b>	<b>145,580</b>	<b>142,240</b>
<b>SSI Program</b>		
Benefit Payment Expense	50,844	49,496
Operating Expenses (Note 11)	4,192	4,044
Total Cost of SSI Program	55,036	53,540
Less: Exchange Revenues (Notes 12 and 13)	(331)	(327)
<b>Net Cost of SSI Program</b>	<b>54,705</b>	<b>53,213</b>
<b>Other</b>		
Benefit Payment Expense	4	6
Operating Expenses (Note 11)	1,992	2,039
Total Cost of Other Program	1,996	2,045
Less: Exchange Revenues (Notes 12 and 13)	(8)	(9)
<b>Net Cost of Other</b>	<b>1,988</b>	<b>2,036</b>
<b>Total Net Cost</b>		
Benefit Payment Expense	894,479	855,151
Operating Expenses (Note 11)	12,728	12,595
Total Cost	907,207	867,746
Less: Exchange Revenues (Notes 12 and 13)	(389)	(391)
<b>Total Net Cost</b>	<b>\$ 906,818</b>	<b>\$ 867,355</b>

The accompanying notes are an integral part of these financial statements.

**Consolidated Statements of Changes in Net Position for the Years Ended  
September 30, 2014 and 2013**  
(Dollars in Millions)

	2014			2013		
	Funds from Dedicated Collections	All Other Funds	Total	Funds from Dedicated Collections	All Other Funds	Total
<b>Cumulative Results of Operations:</b>						
<b>Beginning Balances</b>	\$ 2,695,832	\$ 1,473	\$ 2,697,305	\$ 2,662,913	\$ 1,131	\$ 2,664,044
<b>Budgetary Financing Sources</b>						
Appropriations Used	25,664	59,043	84,707	24,196	88,164	112,360
Tax Revenues (Note 14)	751,339	0	751,339	689,442	0	689,442
Interest Revenues	99,247	0	99,247	104,239	0	104,239
Transfers-In/Out - Without Reimbursement	(5,048)	6,686	1,638	25,904	(24,166)	1,738
Railroad Retirement Interchange	(4,687)	0	(4,687)	(4,677)	0	(4,677)
Net Transfers-In/Out	(9,735)	6,686	(3,049)	21,227	(24,166)	(2,939)
Other Budgetary Financing Sources	96	0	96	81	0	81
<b>Other Financing Sources (Non-Exchange)</b>						
Transfer In/Out	0	(250)	(250)	0	0	0
Imputed Financing Sources (Note 15)	0	569	569	0	562	562
Other	0	(3,266)	(3,266)	0	(3,129)	(3,129)
<b>Total Financing Sources</b>	<b>866,611</b>	<b>62,782</b>	<b>929,393</b>	<b>839,185</b>	<b>61,431</b>	<b>900,616</b>
<b>Net Cost of Operations</b>	<b>844,213</b>	<b>62,605</b>	<b>906,818</b>	<b>806,266</b>	<b>61,089</b>	<b>867,355</b>
<b>Net Change</b>	<b>22,398</b>	<b>177</b>	<b>22,575</b>	<b>32,919</b>	<b>342</b>	<b>33,261</b>
<b>Cumulative Results of Operations</b>	<b>\$ 2,718,230</b>	<b>\$ 1,650</b>	<b>\$ 2,719,880</b>	<b>\$ 2,695,832</b>	<b>\$ 1,473</b>	<b>\$ 2,697,305</b>
<b>Unexpended Appropriations:</b>						
<b>Beginning Balances</b>	<b>\$ 0</b>	<b>\$ 262</b>	<b>\$ 262</b>	<b>\$ 0</b>	<b>\$ 946</b>	<b>\$ 946</b>
<b>Budgetary Financing Sources</b>						
Appropriations Received	25,664	60,738	86,402	24,196	88,534	112,730
Other Adjustments	0	(11)	(11)	0	(1,054)	(1,054)
Appropriations Used	(25,664)	(59,043)	(84,707)	(24,196)	(88,164)	(112,360)
<b>Total Budgetary Financing Sources</b>	<b>0</b>	<b>1,684</b>	<b>1,684</b>	<b>0</b>	<b>(684)</b>	<b>(684)</b>
<b>Total Unexpended Appropriations</b>	<b>0</b>	<b>1,946</b>	<b>1,946</b>	<b>0</b>	<b>262</b>	<b>262</b>
<b>Net Position</b>	<b>\$ 2,718,230</b>	<b>\$ 3,596</b>	<b>\$ 2,721,826</b>	<b>\$ 2,695,832</b>	<b>\$ 1,735</b>	<b>\$ 2,697,567</b>

The accompanying notes are an integral part of these financial statements.

## Combined Statements of Budgetary Resources for the Years Ended September 30, 2014 and 2013 (Dollars in Millions)

	2014	2013
<b>Budgetary Resources (Note 16)</b>		
Unobligated Balance, Brought Forward, October 1	\$ 986	\$ 1,738
Recoveries of Prior Year Unpaid Obligations	355	215
Other Changes in Unobligated Balance	134	218
Unobligated Balance From Prior Year Budget Authority, Net	1,475	2,171
Appropriations (Discretionary and Mandatory)	940,921	928,394
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	15,088	14,440
<b>Total Budgetary Resources</b>	<b>\$ 957,484</b>	<b>\$ 945,005</b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred (Note 16)		
Direct	\$ 951,404	\$ 940,685
Reimbursable	3,340	3,334
Total Obligations Incurred	954,744	944,019
Unobligated Balance, End of Year		
Apportioned	2,466	728
Unapportioned	274	258
Total Unobligated Balance, End of Year	2,740	986
<b>Total Budgetary Resources</b>	<b>\$ 957,484</b>	<b>\$ 945,005</b>
<b>Change in Obligated Balance</b>		
<b>Unpaid obligations:</b>		
Unpaid Obligations, Brought Forward, October 1	\$ 95,317	\$ 92,313
Obligations Incurred	954,744	944,019
Outlays, Gross	(949,377)	(940,800)
Recoveries of Prior Year Unpaid Obligations	(355)	(215)
Unpaid Obligations, End of Year	\$ 100,329	\$ 95,317
<b>Uncollected payments:</b>		
Uncollected Payments, Federal Sources, Brought Forward, October 1	\$ (2,926)	\$ (3,090)
Change in Uncollected Payments, Federal Sources	(237)	164
Uncollected Payments Federal Sources, End of Year	(3,163)	(2,926)
<b>Memorandum (non-add) Entries:</b>		
Obligated Balance, Start of Year	\$ 92,391	\$ 89,223
Obligated balance, End of Year	\$ 97,166	\$ 92,391
<b>Budgetary Authority and Outlays, Net</b>		
Budget Authority, Gross (Discretionary and Mandatory)	\$ 956,009	\$ 942,834
Actual Offsetting Collections (Discretionary and Mandatory)	(14,851)	(14,604)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	(237)	164
Budget Authority, Net (Discretionary and Mandatory)	940,921	928,394
Outlays, Gross (Discretionary and Mandatory)	949,377	940,800
Actual Offsetting Collections (Discretionary and Mandatory)	(14,851)	(14,604)
Outlays, Net (Discretionary and Mandatory)	934,526	926,196
Distributed Offsetting Receipts	(28,754)	(58,800)
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 905,772</b>	<b>\$ 867,396</b>

The accompanying notes are an integral part of these financial statements.

**Statement of Social Insurance**  
**Old-Age, Survivors, and Disability Insurance**  
**as of January 1, 2014**  
(Dollars in Billions)

	Estimates from Prior Years				
	2014	2013	2012	2011	2010
<b>Present value for the 75-year projection period from or on behalf of:</b> <b>(Note 18)</b>					
<i>Participants who, in the starting year of the projection period, have attained eligibility age (age 62 and over):</i>					
Noninterest income	\$ 984	\$ 908	\$ 847	\$ 726	\$ 672
Cost for scheduled future benefits	11,852	11,021	9,834	8,618	8,096
Future noninterest income less future cost	-10,868	-10,112	-8,988	-7,892	-7,424
<i>Participants who have not yet attained retirement eligibility age (ages 15-61):</i>					
Noninterest income	25,391	24,591	22,703	20,734	19,914
Cost for scheduled future benefits	42,419	40,591	37,753	34,042	32,225
Future noninterest income less future cost	-17,028	-16,000	-15,050	-13,309	-12,311
<b>Present value of future noninterest income less future cost for current participants (closed group measure)</b>	-27,896	-26,113	-24,038	-21,201	-19,735
<b>Combined OASI and DI Trust Fund asset reserves at start of period</b>	2,764	2,732	2,678	2,609	2,540
<b>Closed group - Present value of future noninterest income less future cost for current participants plus combined OASI and DI Trust Fund asset reserves at start of period</b>	-\$ 25,131	-\$ 23,381	-\$ 21,360	-\$ 18,592	-\$ 17,195
<b>Present value for the 75-year projection period from or on behalf of:</b> <b>(Note 18)</b>					
<i>Future participants (those under age 15, and to be born and to immigrate during period):</i>					
Noninterest income	24,594	23,419	21,649	20,144	19,532
Cost for scheduled future benefits	10,028	9,600	8,890	8,100	7,744
Future noninterest income less future cost	14,566	13,819	12,759	12,044	11,789
<b>Present value of future noninterest income less future cost for current and future participants (open group measure)</b>	-13,330	-12,294	-11,278	-9,157	-7,947
<b>Combined OASI and DI Trust Fund asset reserves at start of period</b>	2,764	2,732	2,678	2,609	2,540
<b>Open group - Present value of future noninterest income less future cost for current and future participants plus combined OASI and DI Trust Fund asset reserves at start of period</b>	-\$ 10,565	-\$ 9,562	-\$ 8,601	-\$ 6,548	-\$ 5,406

Totals do not necessarily equal the sum of rounded components. The accompanying notes are an integral part of these financial statements.

Future noninterest income and future cost are estimated over the appropriate 75-year period.

**Statement of Changes in Social Insurance Amounts  
Old-Age, Survivors, and Disability Insurance  
For Changing the 75-Year Valuation Period from**

**January 1, 2013 to January 1, 2014  
(Dollars in Billions)**

	Present value of future noninterest income less future cost for current and future participants (open group measure) over the next 75 years	Combined OASI and DI Trust Fund Asset Reserves	Present value of future noninterest income less future cost for current and future participants <i>plus</i> combined OASI and DI Trust Fund asset reserves at start of period
As of January 1, 2013	-\$ 12,294	\$ 2,732	-\$ 9,562
Reasons for changes between January 1, 2013 and January 1, 2014 (Note 18)			
Change in the valuation period	-540	28	-512
Changes in demographic data, assumptions, and methods	235	0	235
Changes in economic data, assumptions, and methods	-604	0	-604
Changes in programmatic data and methods	-90	4	-86
Changes in law or policy	-37	0	-37
Net change between January 1, 2013 and January 1, 2014	-\$ 1,035	\$ 32	-\$ 1,003
As of January 1, 2014	-\$ 13,330	\$ 2,764	-\$ 10,565

**January 1, 2012 to January 1, 2013  
(Dollars in Billions)**

	Present value of future noninterest income less future cost for current and future participants (open group measure) over the next 75 years	Combined OASI and DI Trust Fund Asset Reserves	Present value of future noninterest income less future cost for current and future participants <i>plus</i> combined OASI and DI Trust Fund asset reserves at start of period
As of January 1, 2012	-\$ 11,278	\$ 2,678	-\$ 8,601
Reasons for changes between January 1, 2012 and January 1, 2013 (Note 18)			
Change in the valuation period	-543	57	-486
Changes in demographic data, assumptions, and methods	-681	0	-681
Changes in economic data, assumptions, and methods	-273	0	-273
Changes in programmatic data and methods	1,034	-3	1,031
Changes in law or policy	-553	0	-553
Net change between January 1, 2012 and January 1, 2013	-\$ 1,016	\$ 54	-\$ 961
As of January 1, 2013	-\$ 12,294	\$ 2,732	-\$ 9,562

Totals do not necessarily equal the sum of rounded components. The accompanying notes are an integral part of these financial statements.  
Future noninterest income and future cost are estimated over the appropriate 75-year period.

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# NOTES TO THE BASIC FINANCIAL STATEMENTS

## FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### REPORTING ENTITY

The Social Security Administration (SSA), as an independent agency in the executive branch of the U.S. Government, is responsible for administering the Nation's Old-Age and Survivors and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, the present value for the 75-year projection period for social insurance, and the changes in the present value between the current valuation period and prior valuation period, as required by the Office of Management and Budget (OMB) in OMB Circular No. A-136, *Financial Reporting Requirements*.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America for Federal entities and the form and content for entity financial statements specified by OMB in Circular No. A-136. The Combined Statements of Budgetary Resources and related disclosures provide information about how budgetary resources were made available as well as the status at the end of the period. It is the only Statement predominately derived from an entity's budgetary general ledger in accordance with budgetary accounting rules, which are incorporated into GAAP for the Federal Government. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board. The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the OASI and DI Trust Funds, SSA's Limitation on Administrative Expenses (LAE), four general fund appropriations, three receipt accounts, and one special fund.

LAE is a mechanism to allow SSA to fund its administrative operations and is considered a subset of the OASI and DI Trust Funds. The four general funds are the Payments to Social Security Trust Funds (PTF), SSI Program, Office of the Inspector General (OIG), and Special Veterans Benefits (Title VIII) Program. The three receipt accounts are SSI Overpayment Collections, the General Fund's portion of the SSI State Supplementation fees, and SSI Attorney fees. The one special fund is SSA's portion of the SSI State Supplementation fees. SSA's financial statements also include OASI and DI investment activities performed by the Department of the Treasury (Treasury) and activity related to the *American Recovery and Reinvestment Act of 2009* (ARRA). SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE, and Other. Other consists primarily of PTF appropriations and ARRA activity, but also contains SSI Overpayment Collections and other non-material activities.

#### FUND BALANCE WITH TREASURY

SSA's Fund Balance with Treasury, shown on the Consolidated Balance Sheets, is the aggregate amount of funds in SSA's accounts with Treasury for which SSA is authorized to make expenditures and pay liabilities. Refer to Note 3, Non-Entity Assets, and Note 4, Fund Balance with Treasury.



## INVESTMENTS

Daily deposits received by the OASI and DI Trust Funds that are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. The OASI and DI Trust Fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201 (d) of the *Social Security Act*. These investments consist of Treasury special-issue bonds. Special-issue bonds are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets. Refer to Note 5, Investments and Interest Receivable.

## PROPERTY, PLANT, AND EQUIPMENT

SSA records its property, plant, and equipment (PP&E) in the LAE program, but the PP&E represent the capital assets purchased by the OASI, DI, Hospital Insurance (HI), and Supplemental Medical Insurance (SMI) Trust Funds. SSA allocates user charges to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the OASI and DI Trust Funds for their use of OASI and DI Trust Fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, requires the capitalization of internally developed, contractor-developed, and commercial off-the-shelf software. The capitalization threshold for most PP&E categories is \$100 thousand. Site preparation for Automated Data Processing (ADP) and Telecommunications, and Buildings and Other Structures are capitalized with no threshold. Refer to Note 7, Property, Plant, and Equipment, Net.

SSA presents the change in our PP&E from one reporting period to the next on the chart in Note 17, Reconciliation of Net Cost of Operations to Budget, on the Resources that Finance the Acquisition of Assets line. This line item represents the capital assets that affect budgetary obligations.

## BENEFITS DUE AND PAYABLE

SSA accrues liabilities for OASI and DI benefits due for the month of September, which by statute, are not paid until October. Also, SSA accrues liabilities on benefits for past periods that have not completed processing by the close of the period, such as adjudicated and unadjudicated hearings and appeals and civil litigation cases. Refer to Note 9, Liabilities.

## BENEFIT PAYMENTS

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a federally recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day.

## ADMINISTRATIVE EXPENSES AND OBLIGATIONS

SSA initially charges administrative expenses to the LAE appropriation. Section 201 (g) of the *Social Security Act* requires the Commissioner of Social Security to determine the proper share of costs incurred during the fiscal year to be charged to the appropriate fund. Accordingly, SSA subsequently distributes administrative expenses during each month to the appropriate OASI, DI, HI, and SMI Trust Fund and general fund accounts. SSA initially makes all such distributions on an estimated basis and adjusts to actual each year, as provided for in Section 1534 of Title 31, United States Code (U.S.C.).

SSA incurs obligations in the LAE accounts as activity is processed. SSA incurs obligations in each of the financing sources once we record LAE's authority. The Centers for Medicare and Medicaid Services reports obligations that SSA incurred in the HI and SMI Trust Funds. Because SSA reports LAE with its financing sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources and this Statement does not allow eliminations, we record LAE's obligations twice. This presentation is in conformance with OMB Circular

No. A-136 to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

## RECOGNITION OF FINANCING SOURCES

Financing sources consist of funds transferred from the Treasury to the OASI and DI Trust Funds for employment taxes (*Federal Insurance Contributions Act (FICA)* and *Self Employment Contributions Act (SECA)*), drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts, and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit payments. As governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

Appropriations Used includes payments and accruals for the activities that are funded from Treasury's General Fund.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual taxes payable and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate) are also included in tax revenues. Refer to Note 14, Tax Revenues.

Exchange revenue from sales of goods and services primarily include payments of fees SSA receives from those States choosing to have SSA administer their State Supplementation of Federal SSI benefits. Refer to Note 12, Exchange Revenues. SSA may use exchange revenue financing sources to pay for current operating expenses as specified by law.

## FUNDS FROM DEDICATED COLLECTIONS

SFFAS No. 43, *Funds from Dedicated Collections*, requires separate presentation and disclosure of funds from dedicated collections balances in the financial statements. Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the Government by non-Federal sources, often supplemented by other financing sources, which remain available over time. Funds from dedicated collections must meet the following criteria:

- A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits, or purposes;
- Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

SSA's funds from dedicated collections are the OASI and DI Trust Funds, funds collected through the taxation of Social Security benefits, and fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation. Refer to Note 10, Funds from Dedicated Collections, for additional information.

## TAX RELIEF, UNEMPLOYMENT INSURANCE REAUTHORIZATION, AND JOB CREATION ACT OF 2010 AND MIDDLE CLASS TAX RELIEF AND JOB CREATION ACT OF 2012 (PAYROLL TAX HOLIDAY)

In FY 2011, Congress passed the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (Public Law 111-312). This provided employees a one-year reduction in FICA tax withholdings, reducing rates from 6.2 percent to 4.2 percent for the 2011 tax year (January-December). In FY 2012, Congress passed the *Middle Class Tax Relief and Job Creation Act of 2012* (Public Law 112-96), extending the reduction through the 2012 tax year. Employers were required to pay the full 6.2 percent rate. Self-employed persons, who pay both halves of the Social Security tax through self-employment tax, paid 10.4 percent. In order to avoid harming the OASI and DI Trust Funds, the bill also provided for the transfer of funds by Treasury from general revenues to the OASI and DI Trust Funds. The expiration of this legislation at the end of the first quarter of FY 2013 has resulted in

increased tax revenues when comparing FY 2014 and FY 2013 on the financial statements. Refer to Note 14, Tax Revenues, for additional information.

## APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The Statement of Social Insurance and Statement of Changes in Social Insurance Amounts are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions and expectations of future conditions. Actual results could differ materially from the estimated amounts. Each Statement includes information to assist in understanding the effect of changes in assumptions to the related information. Refer to Note 18, Social Insurance Disclosures.

## RECLASSIFICATION

In FY 2014, we have reclassified a portion of the FY 2013 liability balance on the Consolidated Balance Sheets between the Federal Employee and Veteran Benefits line and the Other Liabilities line. In FY 2014, we added the Federal Employee and Veteran Benefits line to be more consistent with the format presented in OMB Circular No. A-136.

## NOTE PRESENTATION CHANGES

Effective FY 2014, SSA revised the presentation and layout for Note 3, Non-Entity Assets; Note 5, Investments and Interest Receivable; Note 12, Exchange Revenues; and Note 15, Imputed Financing. The presentation and layout revisions primarily consist of using charts, instead of text, to present the activities in a clearer format and provide additional information to the reader. In addition, SSA revised Chart 16b in Note 16, Budgetary Resources, to provide a breakout between OASI and DI activity. The revised chart and related language discusses fiscal year excess or shortfall of receipts over obligations, removing discussion of the overall OASI and DI Trust Fund reserves.

In addition, SSA added Note 8, Other Assets. This note was added to provide the reader with additional information on the Other Asset line items on the Consolidated Balance Sheets.

## 2. CENTRALIZED FEDERAL FINANCING ACTIVITIES

SSA's financial activities interact with, and are dependent on, the financial activities of the centralized management functions of the Federal Government that are undertaken for the benefit of the whole Federal Government. These activities include public debt, employee retirement, life insurance, and health benefit programs. However, SSA's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

Financing for general fund appropriations reported on the Consolidated Statements of Changes in Net Position may be from tax revenue, public borrowing, or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

SSA occupies buildings that have been leased by the General Services Administration (GSA) or have been constructed using Public Building Funds. These financial statements reflect SSA's payments to GSA for their lease, operations maintenance, and depreciation expenses associated with these buildings.

SSA's employees participate in the Office of Personnel Management (OPM) administered contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), to which SSA makes matching contributions. Pursuant to Public Law 99-335, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983, are automatically covered by FERS while employees hired prior to that date could elect to either join FERS or remain in CSRS. Refer to Note 15, Imputed Financing, for additional information.

SSA contributions to CSRS were \$52 and \$60 million for the years ended September 30, 2014 and 2013. SSA contributions to the basic FERS plan were \$455 and \$438 million for the years ended September 30, 2014 and 2013. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is

required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to the FERS savings plan were \$159 and \$151 million for the years ended September 30, 2014 and 2013. These Statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by OPM.

### 3. NON-ENTITY ASSETS

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA displays its Non-Entity Assets in Chart 3a. The Non-Entity Assets are composed of: (1) SSI Federal and State benefit overpayments and underpayments classified as SSI Accounts Receivable, Net; and (2) General Fund's portion of fees collected to administer Title VIII State Supplementation.

Chart 3a - Non-Entity Assets as of September 30: (\$ in millions)						
	2014			2013		
	Non-Entity Assets	Intra-agency Elimination	Net Assets	Non-Entity Assets	Intra-agency Elimination	Net Assets
Intragovernmental:						
Title VIII State Supp Fees	\$ 2	\$ 0	\$ 2	\$ 2	\$ 0	\$ 2
SSI Fed/State Accounts Receivable, Net	7,287	(400)	6,887	6,673	(313)	6,360
Total	\$ 7,289	\$ (400)	\$ 6,889	\$ 6,675	\$ (313)	\$ 6,362

SSA has reduced the SSI Accounts Receivable, Net, by intra-agency eliminations. SSI accounts receivable is recognized as a non-entity asset. Public Law 101-517 requires that collections from repayment of SSI Federal benefit overpayments be deposited in Treasury's General Fund. These funds, upon deposit, are assets of Treasury's General Fund, and will not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. When a beneficiary does not receive their full SSI State Supplemental benefit, SSA establishes an underpayment receivable. This receivable reflects the reimbursement due to SSA from the States to cover the unpaid benefit. SSA recognizes this receivable due from the States as a non-entity asset since the amount owed is due to the beneficiary.

Title VIII State Supplementation fee collections are classified as exchange revenue. These fees are included in the Fund Balance with Treasury as of September 30, 2014 and 2013.

Chart 3b provides a breakout between Non-Entity and Entity assets.

Chart 3b - Non-Entity/Entity Asset Breakdown as of September 30: (\$ in millions)		
	2014	2013
Non-Entity Assets	\$ 6,889	\$ 6,362
Entity Assets	2,822,049	2,793,253
Total Assets	\$ 2,828,938	\$ 2,799,615

### 4. FUND BALANCE WITH TREASURY

The Fund Balance with Treasury, shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other includes PTF, ARRA, deposit funds, and a receipt account. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. OASI, DI, and LAE Trust Fund budgetary accounts are not used in Chart 4b since OASI and DI Trust Fund cash balances are

held in investments until needed and will not match the Fund Balance with Treasury. Therefore, amounts in Chart 4b will not match corresponding activity on the Combined Statements of Budgetary Resources.

Chart 4a - Fund Balances as of September 30: (\$ in millions)			Chart 4b - Status of Fund Balances as of September 30: (\$ in millions)		
	2014	2013		2014	2013
Trust Funds*			Unobligated Balance		
OASI	\$ (106)	\$ (278)	Available	\$ 2,052	\$ 439
DI	(187)	(413)	Unavailable	48	41
LAE	(27)	(82)			
General Funds			Obligated Balance Not Yet		
SSI	4,904	2,215	Disbursed	3,069	2,139
Other	265	404	OASI, DI, and LAE	(320)	(773)
Other Funds			Non-Budgetary FBWT**	43	50
SSI	39	47	Total	\$ 4,892	\$ 1,896
Other	4	3			
Total	\$ 4,892	\$ 1,896			

\*The phrase "Trust Funds" is being used as the fund type as defined by OMB.

\*\*FBWT stands for Fund Balance with Treasury.

The negative fund balances reported for the OASI, DI, and LAE Trust Funds as of September 30, 2014 and 2013 are the result of the policy to protect the OASI and DI Trust Fund investments by not liquidating the investments until the cash is needed. Transfers between the OASI and DI Trust Funds and Treasury are managed to favor the financial position of the OASI and DI Trust Funds. Therefore, investments held by the OASI and DI Trust Funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with the amounts reported by Treasury for OASI and DI, SSA does not reclassify the negative balances as liabilities on the Consolidated Balance Sheets.

## 5. INVESTMENTS AND INTEREST RECEIVABLE

The cash receipts collected from the public for the OASI and DI Trust Funds are invested in interest-bearing securities backed by the full faith and credit of the Federal Government, generally U.S. par-value Treasury special securities. Treasury special securities are issued directly by the Secretary of the Treasury to the OASI and DI Trust Funds and are non-negotiable and non-transferable in the secondary market. Par-value Treasury special securities are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. Therefore, there are no premiums or discounts associated with the redemption of these securities.

SSA displays its investments in Special-Issue U.S. Treasury Securities, as reported on the Consolidated Balance Sheets, in Chart 5.

Chart 5 - Investments as of September 30: (\$ in millions)		
	2014	2013
OASI	\$ 2,712,805	\$ 2,655,599
DI	70,113	100,791
Total	\$ 2,782,918	\$ 2,756,390

The interest rates on these investments range from 1.375 to 6.5 percent and the accrued interest is paid on June 30, December 31, and at maturity or redemption. Investments held for the OASI and DI Trust Funds mature at various dates ranging from the year 2015 to the year 2029. Accrued interest receivable on the OASI and DI Trust Fund investments with the Treasury is an intragovernmental Interest Receivable, reported on the Consolidated Balance Sheets. Interest Receivable amounts are \$24,052 and \$25,072 million as of September 30, 2014 and 2013.

Treasury special securities are an asset to the OASI and DI Trust Funds and a liability to the Treasury. Because the OASI and DI Trust Funds and the Treasury are both part of the Government, these assets and liabilities offset each other for consolidation purposes in the U.S. government-wide financial statements. For this reason, they do not represent a net asset or a net liability in the U.S. government-wide financial statements.

The Treasury does not set aside financial assets to cover its liabilities associated with the OASI and DI Trust Funds. The cash received from the OASI and DI Trust Funds for investment in these securities is used by the Treasury for general Government purposes. Treasury special securities provide the OASI and DI Trust Funds with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the OASI and DI Trust Funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

## **6. ACCOUNTS RECEIVABLE, NET**

### **INTRAGOVERNMENTAL**

Intragovernmental Accounts Receivable, Net, reported on the Consolidated Balance Sheets in the amounts of \$391 and \$568 million as of September 30, 2014 and 2013 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. SSA reduced the gross accounts receivable by \$2,777 and \$2,370 million as of September 30, 2014 and 2013 as an intra-agency elimination. This elimination is primarily to offset SSA's LAE receivable to be paid from the appropriate funds with corresponding payables set up for anticipated LAE disbursements.

SSA does not apply an allowance for doubtful accounts to determine the net value of Intragovernmental Accounts Receivable. According to SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value; however, no potential losses have been assessed on intragovernmental receivables based on individual account and group analysis.

### **WITH THE PUBLIC**

Accounts Receivable, Net, reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6. Amounts in the OASI and DI programs consist mainly of monies due to SSA from individuals who received benefits in excess of their entitlement. The amount of SSI Accounts Receivable represents Federal and State activity. The SSI Federal and State portions consists of overpayments from SSI recipients who are no longer eligible to receive benefit payments or received benefits in excess of their eligibility. Additionally, the SSI State portion consists of amounts due from the States to cover underpayments due to the SSI recipients. Refer to Note 3, Non-Entity Assets, for a discussion of the SSI Federal and State overpayments.

Chart 6 - Accounts Receivable with the Public by Major Program as of September 30: (\$ in millions)						
	2014			2013		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	\$ 2,423	\$ (274)	\$ 2,149	\$ 2,296	\$ (284)	\$ 2,012
DI	6,296	(2,144)	4,152	6,007	(2,136)	3,871
SSI*	9,530	(2,243)	7,287	8,741	(2,068)	6,673
LAE	3	0	3	2	0	2
Subtotal	18,252	(4,661)	13,591	17,046	(4,488)	12,558
Less:						
Eliminations**	(405)	0	(405)	(318)	0	(318)
Total	\$ 17,847	\$ (4,661)	\$ 13,186	\$ 16,728	\$ (4,488)	\$ 12,240

\*See Discussion in Note 3, Non-Entity Assets

\*\*Intra-Agency Eliminations

Chart 6 shows that in FY 2014 and 2013, SSA reduced gross accounts receivable by \$405 and \$318 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset and KZ Diary activity. Windfall Offset is the amount of SSI that would not have been paid if retroactive OASI and DI benefits had been paid timely to eligible beneficiaries. The KZ Diary process identifies SSI recipients eligible for prior entitlement of OASI and DI benefits, and determines SSA's liability for retroactive benefits owed to beneficiaries. For each activity, SSA recognizes a receivable in the SSI program with offsetting payables for both the OASI and DI programs.

SSA annually recalculates a ratio of the estimated allowance for doubtful accounts using a moving five-year average of write-offs divided by clearances comprised of write-offs, waivers, and collections. SSA then applies this ratio to outstanding receivables to compute the amount of allowances for doubtful accounts.

## 7. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, Plant, and Equipment, Net, as reported on the Consolidated Balance Sheets, is reflected by major class in Chart 7.



Chart 7 - Property, Plant and Equipment as of September 30:  
(\$ in millions)

Major Classes:	2014			2013		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Construction-in-Progress	\$ 0	\$ 0	\$ 0	\$ 161	\$ 0	\$ 161
Buildings and Other Structures	59	(19)	40	59	(18)	41
Equipment (incl. ADP Hardware)	541	(239)	302	391	(180)	211
Internal Use Software	6,649	(3,835)	2,814	6,016	(3,279)	2,737
Leasehold Improvements	653	(360)	293	558	(316)	242
Other	710	(683)	27	684	(654)	30
Total	\$ 8,612	\$ (5,136)	\$ 3,476	\$ 7,869	\$ (4,447)	\$ 3,422

Major Classes:	Estimated Useful Life	Method of Depreciation
Construction in Progress	N/A	N/A
Buildings	50 years	Straight Line
Equipment (incl. ADP Hardware)	7-10 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6-33 years	Straight Line
Other	3 years	Straight Line

Other Property, Plant, and Equipment represent deferred charges for fixtures. We classified these items, on the chart above, as Equipment in FY 2013. We have reclassified the FY 2013 balances to Other in this year's chart for comparison purposes.

In December 2010, the Department of Justice (DOJ) issued a legal opinion stating we were not entitled to the proceeds from the sale of buildings acquired with money from the OASI and DI Trust Funds. Due to DOJ's decision, we reevaluated our position that the buildings acquired with money from the OASI and DI Trust Funds belonged as an asset on our financial statements, and ultimately we removed all buildings as of September 30, 2011.

At that same point in time, GSA requested, and we agreed, that we would continue to record the Construction-in-Progress asset related to the construction of the National Support Center (NSC) until the building was fully constructed. SSA was in position to record the asset because ARRA provided SSA the authority for this construction.

In FY 2013, GSA notified SSA that they planned to record the Construction-in-Progress asset on their financial statements. During FY 2013 and the first two quarters of FY 2014, SSA tried to reach an agreement on the accounting methodology to transfer the asset, without success.

Based on DOJ's opinion and discussions with our Office of the General Counsel, we believe that our financial statements should not include the Construction-in-Progress asset as we do not own or control the asset. Therefore, in FY 2014, we transferred the NSC Construction-in-Progress asset to GSA. Until the NSC is fully constructed, we will continue to transfer any future NSC Construction-in-Progress assets. We transferred the asset to GSA using a non-exchange transfer-out, which is supported by Treasury's United States Standard General Ledger. The total asset transferred is \$250 million for the year ended September 30, 2014. The Consolidated Statements of Changes in Net Position provides the transfer balance on the Other Financing Sources (Non-Exchange), Transfer In/Out line.

## 8. OTHER ASSETS

### INTRAGOVERNMENTAL OTHER ASSETS

Intragovernmental Other Assets amounts include advances provided to Federal agencies for goods and services that will be furnished to SSA. Intragovernmental Other Assets are \$19 and \$24 million as of September 30, 2014 and 2013.

### OTHER ASSETS

Other Assets is comprised of advances provided to agency employees for travel and payroll, as well as advances provided to grantee organizations performing work on behalf of the agency. Other Assets are \$4 and \$3 million as of September 30, 2014 and 2013.

## 9. LIABILITIES

Liabilities of Federal agencies are classified as liabilities Covered or Not Covered by budgetary resources and are recognized when incurred. Chart 9a discloses SSA's liabilities Covered by budgetary resources and Not Covered by budgetary resources. Liabilities Covered by budgetary resources use available budget authority when SSA incurs the liabilities. Liabilities Not Covered by budgetary resources do not use available budget authority in the current period. For SSA, these liabilities represent two main activities: (1) liabilities that will be funded in future periods; and (2) liabilities representing cash or SSA receivables due to the General Fund, which do not require budgetary authority.

Chart 9a - Liabilities as of September 30: (\$ in millions)						
	2014			2013		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI*	\$ 4,490	\$ 0	\$ 4,490	\$ 4,505	\$ 0	\$ 4,505
Accounts Payable	31	6,840	6,871	5	6,231	6,236
Other	85	60	145	44	62	106
Total Intragovernmental	4,606	6,900	11,506	4,554	6,293	10,847
Benefits Due and Payable	90,059	3,844	93,903	85,703	3,701	89,404
Accounts Payable	34	447	481	31	443	474
Federal Employee and Veteran Benefits	0	348	348	0	368	368
Other	521	353	874	590	365	955
Total	\$ 95,220	\$ 11,892	\$ 107,112	\$ 90,878	\$ 11,170	\$ 102,048

\*Railroad Retirement Interchange

### INTRAGOVERNMENTAL ACCRUED RAILROAD RETIREMENT INTERCHANGE

The Intragovernmental Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due to the Railroad Retirement Board for the annual interchange from the OASI and DI Trust Funds. This annual interchange is required to place the OASI and DI Trust Funds in the same position they would have been if SSA had covered railroad employment. The *Railroad Retirement Act of 1974* requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June.

## INTRAGOVERNMENTAL ACCOUNTS PAYABLE

Included in the Intragovernmental Accounts Payable Not Covered by budgetary resources are amounts due to Treasury's General Fund. SSA records a payable equal to the SSI Federal benefit overpayments receivable when the agency identifies overpayments. Refer to Note 3, Non-Entity Assets, for additional information on the SSI receivables established for the repayment of SSI benefit overpayments.

## INTRAGOVERNMENTAL OTHER LIABILITIES

Intragovernmental Other Liabilities include amounts Covered by budgetary resources for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. It also includes amounts Not Covered by budgetary resources for *Federal Employees' Compensation Act* (FECA), administered by the Department of Labor. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. The current portion represents SSA's accrued liability due to the Department of Labor's FECA Special Benefits Fund for payments made on SSA's behalf. The funding for the liability will be made from a future appropriation. SSA's current portions of FECA liability are \$57 and \$59 million as of September 30, 2014 and 2013.

## BENEFITS DUE AND PAYABLE

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 9b shows the amounts for SSA's major programs as of September 30, 2014 and 2013. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, budgetary resources cover the unadjudicated cases.

Chart 9b - Benefits Due and Payable as of September 30: (\$ in millions)		
	2014	2013
OASI	\$ 62,993	\$ 60,087
DI	26,021	24,443
SSI	5,294	5,192
Subtotal	94,308	89,722
Less: Intra-agency eliminations	(405)	(318)
Total	\$ 93,903	\$ 89,404

Included in the Benefits Due and Payable for OASI, DI, and SSI are the estimated liabilities related to the settlement of Clark v. Astrue case. The case involves a claim for retroactive benefits in conjunction with the issue of not paying benefits to parole and probation violators. In December 2011, the district court certified a nationwide class of individuals who were not paid, or whose claims were not allowed, on or after October 24, 2006, based on evidence of an outstanding parole or probation violation warrant. Subsequently, the parties negotiated and jointly proposed a class relief order that the court approved on April 13, 2012. Essentially, the order requires reinstatement of benefits not paid or reprocessing claims that were not allowed. As of September 30, 2014 the processing of Clark v. Astrue cases under OASI, DI, and SSI is complete and no liability remains, compared to \$4, \$9, and \$185 million for OASI, DI, and SSI, respectively, as of September 30, 2013.

Chart 9b also shows that as of FY 2014 and 2013, SSA reduced gross Benefits Due and Payable by \$405 and \$318 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset and KZ Diary activity. Refer to Note 6, Accounts Receivable, Net.

## ACCOUNTS PAYABLE

Accounts Payable Not Covered by budgetary resources consists of SSI State Supplemental overpayments due to States. States are entitled to any overpayment that SSA expects to collect because the States funds the actual payments made to the beneficiaries. These amounts are set up as an accounts payable until payment is made.

## FEDERAL EMPLOYEE AND VETERAN BENEFITS

Federal Employee and Veteran Benefits Not Covered by budgetary resources includes the non-current portion of FECA, which is an actuarial liability. The non-current portion of \$348 and \$368 million as of September 30, 2014 and 2013 represents the expected liability from FECA claims for the next 23-year period. This actuarial liability was calculated using historical payment data to project future costs.

## OTHER LIABILITIES

SSA's Other Liabilities Covered by budgetary resources is comprised of accrued payroll and SSI State Supplemental amounts collected in advance. Other Liabilities Not Covered by budgetary resources consists of leave earned but not taken and unapplied deposit funds.

## CONTINGENT LIABILITIES

For several years, the DOJ (Tax Division) handled litigation concerning whether medical residents are subject to FICA taxation. FICA taxes are collected by the Treasury and then transferred to the OASI and DI Trust Funds. On March 2, 2010, the Internal Revenue Service (IRS) announced plans to refund medical resident's FICA taxes for periods ending before April 1, 2005 to institutions and individuals with timely filed refund claims. The IRS is near completion of refunding 100 percent of the employer share of taxes to institutions that had previously timely filed for a refund, as well as refunding the employee share of such taxes for those employees who had sought or consented to receive a refund. The IRS informed us that its processing of the administrative refund requests is substantially complete. We anticipate that the IRS refund program will result in dismissal of pending cases covering the period before April 1, 2005. At this time, SSA is not able to make a reasonable estimate for the refund of medical resident FICA taxes due to the applicable institutions and employees.

In April 2014, a lawsuit was filed in Federal court in Maryland challenging the agency's debt collection practices through the Treasury Offset Program. The suit was later amended in June 2014 as a possible class action. In September 2014, the agency filed a motion to dismiss the lawsuit, and that motion is still pending. The agency has requested that discovery and class certification be stayed pending the motion to dismiss. While the likelihood of an unfavorable outcome is reasonably possible (more than remote but less than probable), due to the uncertain nature of this case, we cannot estimate the possible outcome at this time.

# 10. FUNDS FROM DEDICATED COLLECTIONS

The OASI and DI Trust Funds, Taxation on Social Security benefits, and SSI State Administrative Fees are classified as funds from dedicated collections. These funds obtain revenues primarily through non-Federal receipts, such as Social Security payroll taxes and, to a lesser extent, offsetting collections.

## OASI AND DI TRUST FUNDS

The OASI Trust Fund provides retirement and survivors benefits to qualified workers and their families, and the DI Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in the form of monetary payments.

Payroll and self-employment taxes primarily fund the OASI and DI Trust Funds. Interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security benefits provide additional income to the OASI and DI Trust Funds. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 14, Tax Revenues, for a discussion on employment taxes credited to the OASI and DI Trust Funds, and Note 5, Investments and Interest Receivable, for a discussion on interest.

Funds not withdrawn for current expenses (benefits, the financial interchange with the Railroad Retirement program, and administrative expenses) are invested in interest-bearing Federal securities, as required by law. See Note 5, Investments and Interest Receivable, for a discussion on Treasury securities.

### TAXATION ON SOCIAL SECURITY BENEFITS

Taxation on Social Security Benefits is also classified as funds from dedicated collections. The *Social Security Amendments of 1983* (Public Law 98-21) provides that the OASI and DI Trust Funds receive income related to Federal income taxation of benefits. The taxes are collected as Federal income taxes, and a subsequent payment is then made to the OASI and DI Trust Funds from the General Fund of the Treasury. These collections are warranted from the General Fund and transferred to the OASI and DI Trust Funds via an intragovernmental transfer. These transfers are to be reserved for specific purposes in the future. Because of this, Taxation on Social Security Benefits is considered dedicated collections.

### SSI STATE ADMINISTRATIVE FEES

Administrative Fees collected from States are also classified as funds from dedicated collections. Section 42 U.S.C. 1616 authorizes the Commissioner of Social Security to assess each State an administrative fee in an amount equal to the number of Supplemental payments made by SSA on behalf of the State for any month in a fiscal year, multiplied by the applicable rate for the fiscal year. See Note 12, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See Chart 10 for balances of funds from dedicated collections as reported in the Consolidated Financial Statements for the years ended September 30, 2014 and 2013. The Other Dedicated Funds column in Chart 10 consists of Taxation on Social Security Benefits and SSI State Administrative Fees activity.

Chart 10 - Funds from Dedicated Collections as of September 30:  
Consolidating Schedule  
(\$ in millions)

	2014				
	OASI Trust Fund	DI Trust Fund	Other Dedicated Funds	Eliminations	Total Dedicated Funds
<b>Balance Sheet</b>					
<b>ASSETS</b>					
Fund Balance with Treasury	\$ (106)	\$ (187)	\$ 4	\$ 0	\$ (289)
Investments	2,712,805	70,113	0	0	2,782,918
Interest Receivable	23,278	774	0	0	24,052
Accounts Receivables - Non-Federal	2,149	4,152	0	(5)	6,296
<b>Total Assets</b>	<b>\$ 2,738,126</b>	<b>\$ 74,852</b>	<b>\$ 4</b>	<b>\$ (5)</b>	<b>\$ 2,812,977</b>
<b>LIABILITIES and NET POSITION</b>					
Accrued Railroad Retirement	\$ 4,103	\$ 387	\$ 0	\$ 0	\$ 4,490
Accounts Payable, Federal	460	778	0	0	1,238
Benefits Due and Payable	62,993	26,021	0	(5)	89,009
Accounts Payable, Non-Federal	0	10	0	0	10
<b>Total Liabilities</b>	<b>67,556</b>	<b>27,196</b>	<b>0</b>	<b>(5)</b>	<b>94,747</b>
Cumulative Results of Operations	2,670,570	47,656	4	0	2,718,230
<b>Total Liabilities and Net Position</b>	<b>\$ 2,738,126</b>	<b>\$ 74,852</b>	<b>\$ 4</b>	<b>\$ (5)</b>	<b>\$ 2,812,977</b>
<b>Statement of Net Cost</b>					
Program Costs	\$ 701,037	\$ 142,594	\$ 0	\$ 0	\$ 843,631
Operating Expenses	544	235	0	0	779
Less Earned Revenue	(1)	(26)	(170)	0	(197)
<b>Net Cost of Operations</b>	<b>\$ 701,580</b>	<b>\$ 142,803</b>	<b>\$ (170)</b>	<b>\$ 0</b>	<b>\$ 844,213</b>
<b>Statement of Changes in Net Position</b>					
Net Position Beginning of Period	\$ 2,616,278	\$ 79,549	\$ 5	\$ 0	\$ 2,695,832
Tax Revenue	642,276	109,063	0	0	751,339
Interest Revenue	95,568	3,679	0	0	99,247
Net Transfers In/Out	17,990	(1,890)	(25,835)	0	(9,735)
Other	38	58	25,664	0	25,760
Total Financing Sources	755,872	110,910	(171)	0	866,611
Net Cost of Operations	701,580	142,803	(170)	0	844,213
Net Change	54,292	(31,893)	(1)	0	22,398
<b>Net Position End of Period</b>	<b>\$ 2,670,570</b>	<b>\$ 47,656</b>	<b>\$ 4</b>	<b>\$ 0</b>	<b>\$ 2,718,230</b>

The above Chart 10 for FY 2014 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds. However, \$1,628 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2014 need to be eliminated against LAE (Accounts Payable, Federal), SSI (Benefits Due and Payable), and PTF, excluding Taxation on Benefits (Accounts Receivable, Federal), which are not classified as funds from dedicated collections. Therefore, due to the separate presentation of funds from dedicated collections only in this note, SSA does not include eliminations between funds from dedicated collections and LAE, SSI, and PTF, excluding Taxation on Benefits in Chart 10.

Chart 10 - Funds from Dedicated Collections as of September 30:  
Consolidating Schedule  
(\$ in millions)

	2013				
	OASI Trust Fund	DI Trust Fund	Other Dedicated Funds	Eliminations	Total Dedicated Funds
<b>Balance Sheet</b>					
<b>ASSETS</b>					
Fund Balance with Treasury	\$ (278)	\$ (413)	\$ 5	\$ 0	\$ (686)
Investments	2,655,599	100,791	0	0	2,756,390
Interest Receivable	23,981	1,091	0	0	25,072
Accounts Receivables - Federal	1	1	0	0	2
Accounts Receivables - Non-Federal	2,012	3,871	0	(5)	5,878
<b>Total Assets</b>	<b>\$ 2,681,315</b>	<b>\$ 105,341</b>	<b>\$ 5</b>	<b>\$ (5)</b>	<b>\$ 2,786,656</b>
<b>LIABILITIES and NET POSITION</b>					
Accrued Railroad Retirement	\$ 4,064	\$ 441	\$ 0	\$ 0	\$ 4,505
Accounts Payable, Federal	886	900	0	0	1,786
Benefits Due and Payable	60,087	24,443	0	(5)	84,525
Other - Non-Federal Liabilities	0	8	0	0	8
<b>Total Liabilities</b>	<b>65,037</b>	<b>25,792</b>	<b>0</b>	<b>(5)</b>	<b>90,824</b>
Cumulative Results of Operations	2,616,278	79,549	5	0	2,695,832
<b>Total Liabilities and Net Position</b>	<b>\$ 2,681,315</b>	<b>\$ 105,341</b>	<b>\$ 5</b>	<b>\$ (5)</b>	<b>\$ 2,786,656</b>
<b>Statement of Net Cost</b>					
Program Costs	\$ 666,387	\$ 139,262	\$ 0	\$ 0	\$ 805,649
Operating Expenses	576	236	0	0	812
Less Earned Revenue	(1)	(29)	(165)	0	(195)
<b>Net Cost of Operations</b>	<b>\$ 666,962</b>	<b>\$ 139,469</b>	<b>\$ (165)</b>	<b>\$ 0</b>	<b>\$ 806,266</b>
<b>Statement of Changes in Net Position</b>					
Net Position Beginning of Period	\$ 2,551,565	\$ 111,348	\$ 0	\$ 0	\$ 2,662,913
Tax Revenue	589,375	100,067	0	0	689,442
Interest Revenue	99,126	5,113	0	0	104,239
Net Transfers In/Out	43,151	2,432	(24,356)	0	21,227
Other	23	58	24,196	0	24,277
Total Financing Sources	731,675	107,670	(160)	0	839,185
Net Cost of Operations	666,962	139,469	(165)	0	806,266
Net Change	64,713	(31,799)	5	0	32,919
<b>Net Position End of Period</b>	<b>\$ 2,616,278</b>	<b>\$ 79,549</b>	<b>\$ 5</b>	<b>\$ 0</b>	<b>\$ 2,695,832</b>

Chart 10 for FY 2013 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds. However, \$2,097 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2013 need to be eliminated against LAE (Accounts Payable, Federal), SSI (Benefits Due and Payable), and PTF, excluding Taxation on Benefits (Accounts Receivable, Federal), which are not classified as funds from dedicated collections. Therefore, due to the separate presentation of funds from dedicated collections only in this note, SSA does not include



eliminations between funds from dedicated collections and LAE, SSI, and PTF, excluding Taxation on Benefits in Chart 10.

## 11. OPERATING EXPENSES

### CLASSIFICATION OF OPERATING EXPENSES BY MAJOR PROGRAM

Chart 11a displays SSA's operating expenses for each major program. LAE SSA operating expenses recorded in Other represent: (1) HI/SMI Trust Funds' shares of SSA's operating expenses, including the Medicare Prescription Drug Program; and (2) SSA's administrative expense for the Low Income Subsidy Program. LAE ARRA operating expenses recorded in the Other program primarily represent expenses associated with the construction and setup of the new NSC. OASI and DI Trust Fund Operations include expenses of Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries.

Chart 11a - SSA's Operating Expenses by Major Program as of September 30: (\$ in millions)							
2014							
	LAE			OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total	
	SSA	OIG	ARRA				
OASI	\$ 2,941	\$ 36	\$ 0	\$ 542	\$ 2	\$	3,521
DI	2,754	34	0	103	132		3,023
SSI	4,052	0	0	0	140		4,192
Other	1,936	27	29	0	0		1,992
	\$ 11,683	\$ 97	\$ 29	\$ 645	\$ 274	\$	12,728

Chart 11a - SSA's Operating Expenses by Major Program as of September 30: (\$ in millions)							
2013							
	LAE			OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total	
	SSA	OIG	ARRA				
OASI	\$ 2,880	\$ 37	\$ 0	\$ 572	\$ 4	\$	3,493
DI	2,748	35	0	108	128		3,019
SSI	3,914	0	0	0	130		4,044
Other	1,982	28	29	0	0		2,039
	\$ 11,524	\$ 100	\$ 29	\$ 680	\$ 262	\$	12,595

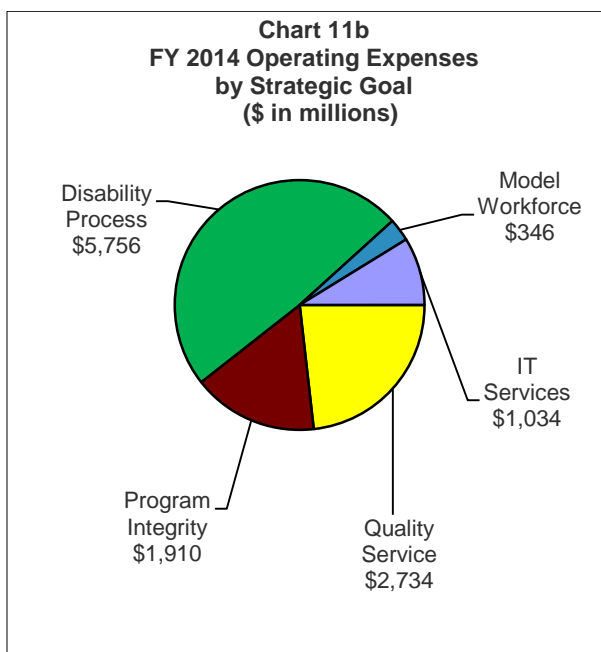
### CLASSIFICATION OF OPERATING EXPENSES BY STRATEGIC GOAL

SSA's *Annual Performance Plan* (APP) sets forth expected levels of performance the agency is committed to achieving, and includes proposed levels of performance for future fiscal years. Our APP is characterized by broad-based Strategic Goals that the entire agency supports. The five goals are:

- Deliver Innovative, Quality Services (Quality Service);
- Strengthen the Integrity of Our Programs (Program Integrity);
- Serve the Public Through a Stronger, More Responsive Disability Program (Disability Process);
- Build a Model Workforce to Deliver Quality Service (Model Workforce); and
- Ensure Reliable, Secure, and Efficient Information Technology Services (IT Services).

Chart 11b exhibits the distribution of FY 2014 SSA and OIG LAE operating expenses to the five APP Strategic Goals, which agree to the agency's LAE budget appropriation. As noted earlier in this report, the agency revised its Strategic Goals following the publication of the *FY 2013 Agency Financial Report*. Therefore, because the goals are not comparable between FY 2014 and FY 2013, we did not include a chart showing the distribution of FY 2013 operating expenses by Strategic Goal.

For Chart 11b, we subtracted LAE ARRA expenses from total SSA LAE operating expenses before distributing the operating expenses to the agency's APP Strategic Goals. SSA does not include OASI and DI Trust Fund Operations and Vocational Rehabilitation expenses (see Chart 11a) in LAE by Strategic Goal as these amounts are disbursed from the OASI and DI Trust Funds and are not directly linked to the budget authority.



## 12. EXCHANGE REVENUES

SSA recognizes revenue from exchange transactions when goods and services are provided. The goods and services provided are priced so that charges do not exceed the agency's cost. Total exchange revenues are \$389 and \$391 million for the years ended September 30, 2014 and 2013. SSA's exchange revenue primarily consists of fees collected to administer SSI State Supplementation. The fees charged to the state are \$11.32 and \$11.12, per payment, for the years ended September 30, 2014 and 2013. SSA has agreements with 22 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. Additional fees are collected for handling OASI and DI Trust Fund and SSI attorney fees. Other exchange revenue consists of reimbursement for performing non-mission work for Federal and non-Federal entities. Chart 12 discloses SSA's exchange revenue by activity.

Chart 12 - Exchange Revenue as of September 30: (\$ in millions)				
	2014		2013	
SSI State Supplementation Fees	\$	306	\$	300
SSI Attorney Fees		8		9
DI Attorney Fees		26		29
OASI Attorney Fees		1		1
Other		48		52
Total	\$	389	\$	391

SSI administrative fees are split between fees that SSA can use and fees that are entitled to Treasury's General Fund. The General Fund's portion of these administrative fees is \$143 and \$144 million for the years ended September 30, 2014 and 2013. Of these amounts, \$135 million was collected to administer SSI State Supplementation for the years ended September 30, 2014 and 2013. The remainder of the SSI administrative fees, which meet the criteria of a fund from dedicated collections, in the amount of \$171 and \$165 million for the years ended September 30, 2014 and 2013, are maintained by SSA to defray expenses in carrying out the SSI program.

### **13. COSTS AND EXCHANGE REVENUE CLASSIFICATIONS**

Chart 13 displays costs and exchange revenue by Intragovernmental and Public classifications. Intragovernmental costs are related to activity with Federal entities, which include: payments for processing benefit and administrative checks; employee benefits; and imputed financing costs. Refer to Note 15, Imputed Financing, for additional information. Public costs are related to activity with non-Federal entities, which include: OASI and DI benefit payments; SSI payments; payroll; and other administrative costs. Intragovernmental exchange revenue is collections received from Federal entities for services provided, which includes reimbursements from the Department of Agriculture for the Food Stamp Program. Public exchange revenue is collections received from non-Federal entities for services provided, which includes fees for administering the States' portion of SSI payments. Other Program primarily reports the costs and revenues that SSA incurs in administering: (1) a portion of the Medicare program; (2) the Medicare Savings Program and the Low Income Subsidy Program; and (3) ARRA activities.

Chart 13 - Costs and Exchange Revenue Classifications as of September 30:  
(\$ in millions)

	2014			2013		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
OASI Program						
Intragovernmental	\$ 1,422	\$ (9)	\$ 1,413	\$ 1,406	\$ (10)	\$ 1,396
Public	703,136	(4)	703,132	668,474	(4)	668,470
OASI Subtotal	704,558	(13)	704,545	669,880	(14)	669,866
DI Program						
Intragovernmental	928	(7)	921	903	(9)	894
Public	144,689	(30)	144,659	141,378	(32)	141,346
DI Subtotal	145,617	(37)	145,580	142,281	(41)	142,240
SSI Program						
Intragovernmental	1,233	(12)	1,221	1,151	(14)	1,137
Public	53,803	(319)	53,484	52,389	(313)	52,076
SSI Subtotal	55,036	(331)	54,705	53,540	(327)	53,213
Other Program						
Intragovernmental	581	(6)	575	575	(7)	568
Public	1,415	(2)	1,413	1,470	(2)	1,468
Other Subtotal	1,996	(8)	1,988	2,045	(9)	2,036
Total	\$ 907,207	\$ (389)	\$ 906,818	\$ 867,746	\$ (391)	\$ 867,355

## 14. TAX REVENUES

Treasury estimates monthly employment tax revenues based on SSA's quarterly estimate of taxable earnings. Treasury uses these estimates to credit the Social Security OASI and DI Trust Funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the OASI and DI Trust Funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security OASI and DI Trust Funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the IRS or SSA. Revenues to the OASI and DI Trust Funds are reduced for excess employment taxes, which are refunded by offset against income taxes. The Consolidated Statements of Changes in Net Position recognizes tax revenues of \$751,339 and \$689,442 million for the years ended September 30, 2014 and 2013.

The FY 2014 tax revenue is increased, in part, as a result of the expiration of two tax bills signed into law in December 2010 and February 2012. The *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* provided employees a one-year reduction in FICA tax withholdings, reducing rates from 6.2 percent to 4.2 percent for the 2011 tax year (January-December). The *Middle Class Tax Relief and Job Creation Act of 2012* extended the reduction through the 2012 tax year. In order to avoid harming the OASI and DI Trust Funds, the bills also provided the transfer of funds by Treasury from general revenues to the OASI and DI Trust Funds. The legislation expired as of December 31, 2012, increasing the tax rate back to the original 6.2 percent. Since the original transfers in from general revenues were based on estimated monthly tax revenues, transfer adjustments are

needed as the actual wage data is certified, similar to the process discussed above. The total transferred amounts are \$122 and \$31,632 million for the years ended September 30, 2014 and 2013.

## 15. IMPUTED FINANCING

SSA is required to incorporate the full cost of goods and services that it receives from other entities on its Consolidated Statements of Net Cost. In some instances, goods or services provided by one Federal entity to another may not be fully reimbursed by the receiving entity. The unreimbursed portion of these costs is considered an imputed cost, and must be recognized on the receiving entity's Statement of Net Cost. The funding for these imputed costs is recognized as an imputed financing source on the receiving entity's Statement of Changes in Net Position. SSA has activities with both OPM and Treasury that require imputed costs and financing sources to be recognized. While the imputed financing sources are shown on the face of the Consolidated Statements of Changes in Net Position, the imputed costs are included in the operating expense amounts reported on the Consolidated Statements of Net Cost.

OPM administers three earned benefit programs for civilian Federal employees: (1) the Retirement Program, comprised of the CSRS and the FERS; (2) the Federal Employees Health Benefits Program (FEHBP); and (3) the Federal Employee Group Life Insurance Program (FEGLI). The Consolidated Statements of Net Cost recognize post-employment benefit expenses of \$1,059 and \$1,054 million for the years ended September 30, 2014 and 2013, as a portion of operating expenses. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life, and health insurance. SSA is responsible for a portion of the contributions made to each benefit program during the fiscal year, while the remaining costs are covered by OPM. SSA recognizes these costs on its financial statements as an imputed cost, with a corresponding imputed financing source.

Likewise, Treasury administers payments for SSI benefits. While the majority of these payment costs are recorded as imputed costs with an associated imputed financing source, SSA is responsible for a portion of these costs related to postage. In addition, when funds are not legally available to pay monetary awards from SSA's own appropriations, Treasury issues payments from the Judgment Fund on behalf of SSA for court judgments and DOJ compromise settlements of actual or imminent lawsuits against SSA. These costs are also recorded as imputed costs with a corresponding imputed financing source.

Chart 15 discloses SSA's imputed financing sources by activity.

Chart 15 - Imputed Financing Sources as of September 30: (\$ in millions)		
	2014	2013
Employee Benefits (OPM)		
CSRS	\$ 141	\$ 161
FERS	87	51
FEHBP	323	332
FEGLI	1	1
Total Employee Benefits	552	545
SSI Benefit Payments (Treasury)	16	17
Judgment Fund (Treasury)	1	0
Total	\$ 569	\$ 562

## 16. BUDGETARY RESOURCES

### APPROPRIATIONS RECEIVED

The Combined Statements of Budgetary Resources discloses Appropriations Received of \$940,921 and \$928,394 million for the years ended September 30, 2014 and 2013. Appropriations Received on the Consolidated Statements of Changes in Net Position are \$86,402 and \$112,730 million for the same periods. The differences of \$854,519 and \$815,664 million primarily represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated receipts in the OASI and DI Trust Funds.

Appropriations Received for PTF are recorded based on warrants received from the General Fund and presented as Other in the financial statements. These amounts are transferred to the Bureau of Fiscal Service where they are also recorded as Appropriations Received in the OASI and DI Trust Funds. Because OASI and DI Trust Fund activity is combined with Other on SSA's Combined Statements of Budgetary Resources, Appropriations Received for PTF are duplicated. This is in compliance with OMB's Circular No. A-136 to have the Combined Statements of Budgetary Resources in agreement with the required SF-133. These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

### APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Agency accounts or funds can receive budgetary resources from OMB through an apportionment or they can receive funds based on statutes, laws, legislation, etc. Apportionments issued for specific activities, projects, objects, or a combination of these categories are classified as Category B. If an account or fund receives its budgetary resources based on law or statute and does not receive an apportionment from OMB, it is classified as Exempt from Apportionment. Chart 16a reflects the amounts of direct and reimbursable obligations incurred against Categories B Apportionment and Exempt from Apportionment accounts.

Chart 16a - Apportionment Categories of Obligations Incurred as of September 30: (\$ in millions)						
	2014			2013		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	\$ 70,895	\$ 3,339	\$ 74,234	\$ 67,957	\$ 3,332	\$ 71,289
Exempt	880,509	1	880,510	872,728	2	872,730
Total	\$ 951,404	\$ 3,340	\$ 954,744	\$ 940,685	\$ 3,334	\$ 944,019

### PERMANENT INDEFINITE APPROPRIATION

SSA has three Permanent Indefinite Appropriations: OASI and DI Trust Funds and Title VIII. The OASI Trust Fund provides retirement and survivors benefits to qualified workers and their families. The DI Trust Fund provides disability benefits to individuals who cannot work because they have a medical condition expected to last one year or result in death. The authority remains available as long as there are qualified beneficiaries.

The Title VIII Program was established as part of Public Law 106-169, *Foster Care Independence Act of 1999*. It provides special benefits to World War II Philippine veterans receiving SSI, who wanted to spend their remaining years outside the United States. Prior to the passage of Public Law 106-169, the veterans' SSI benefits would terminate the month after leaving the United States. Under the new law, these veterans will receive 75 percent of their benefits. The authority remains available as long as there are qualified recipients.

### LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

During the year, the OASI and DI Trust Funds collect receipts and incur obligations. The receipts are primarily made up of tax and interest revenues. As beneficiaries pass the various entitlement tests prescribed by the *Social Security Act*, benefit payments and other outlays are obligated against the OASI and DI Trust Funds. During a given year, when receipts collected exceed the amount needed to pay benefits and other valid obligations, the excess

authority becomes precluded by law from being available for obligations, as of September 30. While this amount is precluded from obligation at the end of one fiscal year, the excess receipts remain assets of the OASI and DI Trust Funds and can become available in future periods as needed.

Chart 16b, provides an overview of fiscal year budgetary receipt and obligation information for the OASI and DI Trust Funds. SSA compares the current year receipts to the current year obligations incurred to determine the excess or shortfall for a fiscal year. As seen in Chart 16b, the DI Trust Fund's obligations exceed current year receipts, which resulted in the DI Trust Fund dipping into its authority reserves, which were previously precluded from obligation.

Chart 16b - OASI and DI Trust Fund Activities as of September 30:  
(\$ in millions)

	2014			2013		
	OASI	DI	Total	OASI	DI	Total
Receipts	\$ 763,339	\$ 114,193	\$ 877,532	\$ 739,557	\$ 111,199	\$ 850,756
Less: Obligations	708,500	146,165	854,665	674,016	142,832	816,848
Excess of Receipts Over Obligations	\$ 54,839	\$ (31,972)	\$ 22,867	\$ 65,541	\$ (31,633)	\$ 33,908

SSA updated Chart 16b, in FY 2014, to breakout the OASI and DI Trust Funds separately to highlight the difference in how the authority reserves are growing and shrinking, respectively. FY 2013 data has been reclassified to provide comparative information. The current FY 2013 disclosure, included in Chart 16b, includes Receipts of \$850,756 million. In last year's note disclosure, SSA presented Receipts of \$882,693 million for the year ended September 30, 2013. The majority of the \$31,937 million difference represents DI Trust Fund reserves made available to cover DI obligations exceeding receipts, which has now been excluded from receipts. OASI and DI Trust Fund reserves made available to cover obligations exceeding current year receipts are not considered current year receipts. These amounts represent existing trust fund resources previously precluded from obligation.

The negative Excess of Receipts Over Obligations for DI presented in Chart 16b, reflects the shrinking of the DI Trust Fund authority reserves. While the DI Trust Fund obligations exceed receipts, the overall Net Position of the DI Trust Fund, on the Consolidated Statements of Changes in Net Position, is \$47,656 and \$79,549 million for the years ended September 30, 2014 and 2013.

## UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders consist of orders of goods and services that SSA has not actually or constructively received. SSA's total undelivered orders are \$2,173 and \$2,049 million for the years ended September 30, 2014 and 2013. The total undelivered orders contain unpaid and paid undelivered orders, with unpaid orders making up the majority of the total. SSA's total unpaid undelivered orders are \$2,150 and \$2,026 million for the years ended September 30, 2014 and 2013.

## EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

SSA conducted a reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays as presented in the Combined Statements of Budgetary Resources, to amounts included in the Budget of the U.S. Government for the year ended September 30, 2013. All differences shown in the chart below are recognized as accepted differences. Expired activity is not included in the Budget of the U.S. Government, and distributed offsetting receipts are not included in the net outlay calculation within the Budget of the U.S. Government.

Chart 16c presents a reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays as presented in the Combined Statements of Budgetary Resources, to amounts included in the Budget of the U.S. Government for the year ended September 30, 2013.



Chart 16c - Explanation of Differences Between Statement of Budgetary Resources and the Budget of the U.S. Government for FY 2013:  
(\$ in millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 945,005	\$ 944,019	\$ 58,800	\$ 867,396
Expired activity not in President's Budget	(293)	(39)	0	0
Offsetting Receipts activity not in President's Budget	0	0	0	58,800
Other	0	1	3	(2)
Budget of the U.S. Government	\$ 944,712	\$ 943,981	\$ 58,803	\$ 926,194

## 17. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Chart 17 - Reconciliation of Net Cost of Operations to Budget for the Years Ended September 30, 2014 and 2013  
(\$ in millions)

	2014	2013
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 954,744	\$ 944,019
Offsetting Collections and Recoveries	(15,443)	(14,655)
Obligations Net of Offsetting Collections and Recoveries	939,301	929,364
Offsetting Receipts	(28,754)	(58,800)
Net Obligations	910,547	870,564
Other Resources		
Imputed Financing	569	562
Other	(314)	(309)
Net Other Resources Used to Finance Activities	255	253
Total Resources Used to Finance Activities	910,802	870,817
<b>Resources Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated, Not Yet Provided	(174)	165
Resources that Fund Expenses Recognized in Prior Periods	(27)	(291)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	28,765	58,770
Resources that Finance the Acquisition of Assets	(993)	(913)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(31,366)	(61,319)
Total Resources Not Part of the Net Cost of Operations	(3,795)	(3,588)
Total Resources Used to Finance the Net Cost of Operations	907,007	867,229
<b>Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods		
Other	142	18
Components Not Requiring or Generating Resources		
Depreciation and Amortization	689	620
Other	(1,020)	(512)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(331)	108
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	(189)	126
<b>Net Cost of Operations</b>	<b>\$ 906,818</b>	<b>\$ 867,355</b>

Chart 17 presents a reconciliation between SSA's budgetary and proprietary accounting. This reconciliation shows the relationship between the net obligations derived from the Statement of Budgetary Resources and net costs of operations derived from the Statement of Net Costs by identifying and explaining key items that affect one Statement, but not the other.

## 18. SOCIAL INSURANCE DISCLOSURES

### STATEMENT OF SOCIAL INSURANCE

The Statement of Social Insurance presents the present value for the 75-year projection period of the estimated future noninterest income, estimated future cost, and the excess of income over cost for both the “open group” and “closed group” of participants. The open group of participants includes all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the OASDI social insurance program. The closed group of participants includes only current participants (i.e., those who attain age 15 or older in the first year of the projection period). The closed group disclosure is not relevant to the financial status because the program is financed largely on a pay-as-you-go basis.

Present values are computed based on the intermediate economic and demographic assumptions described in the *2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (the Trustees Report) for the 75-year projection period beginning January 1, 2014. These assumptions represent the Trustees’ reasonable estimate of likely future economic and demographic conditions. Similar present values are shown in the Statement of Social Insurance based on the prior four Trustees Reports reflecting present values at January 1 of the applicable year.

Estimated future noninterest income consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. It does not include interest income on asset reserves held in the combined OASI and DI Trust Fund. The estimated future cost includes benefit amounts scheduled under current law, administrative expenses, and net transfers with the Railroad Retirement program.

The present value of the estimated future excess of noninterest income over cost is shown in the Statement of Social Insurance, not only for the open group of participants, but also for the “closed group” of participants. The closed group of participants consists of those who, in the starting year of the projection period, have attained age 15 or older. This closed group is further divided into those who have attained retirement eligibility age in the starting year of the projection period and those who attained age 15 through 61 in the starting year of the projection period. The Statement of Social Insurance also presents the present value of estimated future noninterest income less estimated future cost *plus* the combined OASI and DI Trust Fund asset reserves at the start of the period on both an open and closed group basis.

Combined OASI and DI Trust Fund asset reserves represent the accumulated excess of all past income, including interest on prior combined OASI and DI Trust Fund asset reserves, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund asset reserves as of January 1, 2014 totaled \$2,764 billion and were comprised entirely of investment securities that are backed by the full faith and credit of the Federal Government.

The present value for a 75-year projection period of estimated future excess of noninterest income over cost, plus the combined OASI and DI Trust Fund asset reserves at the start of the period, is shown as a negative value. Its magnitude is commonly referred to as the “open group unfunded obligation” of the program over the 75-year projection period. This value is included in the applicable Trustees Report and is shown in the Report as a percentage of taxable payroll and as a percentage of gross domestic product (GDP) over the period.

Because the OASDI program lacks borrowing authority, the open group unfunded obligation represents the amount of benefits scheduled in the law that would not be payable in the years after the asset reserves in the combined OASI and DI Trust Fund become depleted. Thus, if the asset reserves in the combined OASI and DI Trust Fund become depleted, the amount of money available to pay benefits and other expenses would be limited to continuing noninterest income. Therefore, barring legislative action, this unfunded obligation represents a financial shortfall that would be accommodated by either paying benefits that are less than the amount scheduled or by delaying the payment of scheduled benefits.

## ASSUMPTIONS USED FOR THE STATEMENT OF SOCIAL INSURANCE

The present values used in this presentation for the current year (2014) are based on the full amounts of estimated noninterest income and the cost of providing benefits at the levels scheduled under current law, even after the OASI and DI Trust Fund asset reserves are depleted. Estimates are also based on various economic and demographic assumptions, including those in the following table:

**Table 1: Significant Assumptions and Summary Measures Used for the Statement of Social Insurance 2014**

	Total Fertility Rate <sup>1</sup>	Age-Sex-Adjusted Death Rate <sup>2</sup> (per 100,000)	Period Life Expectancy At Birth <sup>3</sup>		Net Annual Immigration (persons per year) <sup>4</sup>	Real-Wage Differential <sup>5</sup> (percentage points)	Annual Percentage Change In:				Average Annual Interest Rate <sup>10</sup>
			Male	Female			Average Annual Wage in Covered Employment <sup>6</sup>	CPI <sup>7</sup>	Total Employment <sup>8</sup>	Real GDP <sup>9</sup>	
2014	1.91	779.8	76.7	81.4	1,345,000	2.18	3.78	1.61	1.3	3.1	2.9%
2020	2.06	730.2	77.6	82.1	1,345,000	1.42	4.12	2.70	1.0	2.6	5.5%
2030	2.03	667.6	78.8	83.1	1,155,000	1.24	3.94	2.70	0.4	2.1	5.6%
2040	2.00	614.6	79.9	84.0	1,100,000	1.15	3.85	2.70	0.6	2.2	5.6%
2050	2.00	568.1	80.9	84.8	1,080,000	1.11	3.81	2.70	0.5	2.1	5.6%
2060	2.00	527.1	81.8	85.5	1,070,000	1.10	3.80	2.70	0.4	2.1	5.6%
2070	2.00	490.8	82.7	86.2	1,065,000	1.09	3.79	2.70	0.5	2.1	5.6%
2080	2.00	458.4	83.5	86.9	1,060,000	1.13	3.83	2.70	0.4	2.1	5.6%
2090	2.00	429.5	84.3	87.5	1,055,000	1.15	3.85	2.70	0.4	2.0	5.6%

1. The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or assumed for, the selected year and if she were to survive the entire childbearing period.
2. The age-sex-adjusted death rate is based on the enumerated total population as of April 1, 2010, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy at a given age for a given year is the average remaining number of years expected prior to death for a person at that exact age, born on January 1, using the mortality rates for that year over the course of his or her remaining life. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
5. The real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Values are rounded after all computations.
6. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
7. The CPI is CPI-W.
8. Total employment is total U.S. military and civilian employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
9. The real GDP is the value of the total output of goods and services in 2009 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
10. The average annual interest rate is the average of the nominal interest rates, which compound semiannually, for special public-debt obligations issuable to the OASI and DI Trust Funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

The present values used in the Statement of Social Insurance for the current year and in corresponding Statements in prior years are based on various economic and demographic assumptions. The values for each of these assumptions move from recently experienced levels or trends toward long-range ultimate values. These ultimate values are summarized in Table 2. Detailed information, similar to that denoted within Table 1, is available on [our Agency Financial Report website \(www.socialsecurity.gov/finance\)](http://www.socialsecurity.gov/finance) for the prior four years.

**Table 2: Significant Ultimate Assumptions and Summary Measures Used for the Statement of Social Insurance for Current and Prior Years**

Year of Statement	Total Fertility Rate <sup>1</sup>	Average Annual Percentage Reduction in the Age-Sex-Adjusted Death Rates <sup>2</sup>	Average Annual Net Immigration (persons per year) <sup>3</sup>	Average Annual Real-Wage Differential <sup>4</sup> (percentage points)	Average Annual Percentage Change In:			Average Annual Real Interest Rate <sup>8</sup>
					Average Annual Wage in Covered Employment <sup>5</sup>	CPI <sup>6</sup>	Total Employment <sup>7</sup>	
FY 2014	2.0	0.79	1,125,000	1.13	3.83	2.70	0.5	2.9
FY 2013	2.0	0.80	1,095,000	1.12	3.92	2.80	0.6	2.9
FY 2012	2.0	0.77	1,080,000	1.12	3.92	2.80	0.6	2.9
FY 2011	2.0	0.78	1,075,000	1.2	4.0	2.8	0.5	2.9
FY 2010	2.0	0.79	1,065,000	1.2	4.0	2.8	0.5	2.9

1. The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in the 25<sup>th</sup> year of the projection period.
2. The age-sex-adjusted death rate is based on the enumerated total population as of a standard date if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. For the FY 2014 Statement, the standard date was April 1, 2010. For the 2010-2013 Statements, the standard date was April 1, 2000. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage reduction for each 75-year projection period. The annual rate of reduction declines gradually during the period, so no ultimate rate is achieved. For the 2014 Statement, the average annual rate of reduction is computed based on death-rate levels, as shown in Table 1.
3. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. The value in the table is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value shown is the average net immigration level projected for the 75-year projection period. For the 2014 Statement, the value shown is consistent with the annual levels shown in Table 1.
4. The annual real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The value presented is the average of annual real-wage differentials for the last 65 years of the 75-year projection period. For the 2012 Statement, the average real-wage differential decreased from 1.17 to 1.12 percentage points and is displayed to two decimal places. For the 2014 Statement, the average real-wage differential is consistent with the annual differentials shown in Table 1.
5. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage change from the 10<sup>th</sup> year of the 75-year projection period to the 75<sup>th</sup> year. For the 2012 Statement, the average annual percentage change decreased from 3.97 to 3.92 percentage points and is displayed to two decimal places. For the 2014 Statement, the average annual percentage change decreased from 3.92 to 3.83 percentage points and is consistent with the annual percentages shown in Table 1.
6. The CPI is the CPI-W. The ultimate assumption is reached within the first 10 years of the projection period. For the 2014 Statement the ultimate average annual percent change in CPI decreased from 2.8 to 2.7.
7. Total employment is total U.S. military and civilian employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The average annual percentage change in total employment is for the entire 75-year projection period. The annual rate of increase tends to decline through the period reflecting the slowing growth rate of the working-age population. Thus, no ultimate rate of change is achieved. For the 2014 Statement, the average annual rate of change is consistent with the annual percentages shown in Table 1.
8. The average annual real interest rate reflects the expected annual real yield for each year on securities issuable in the prior year. The ultimate rate is assumed to be reached soon after the 10<sup>th</sup> year of the projection period. For the 2014 Statement, the average annual real interest rate is consistent with the nominal interest rates shown in Table 1.

These assumptions and the other values on which Table 2 is based reflect the intermediate assumptions of the 2010-2014 Trustees Reports. Estimates made prior to this year differ substantially because of revisions to the assumptions based on changes in conditions or experience, and to changes in actuarial methodology. It is reasonable to expect more changes for similar reasons in future reports.

Additional information on social insurance is contained in the *Required Supplementary Information: Social Insurance* section of this report.

## STATEMENT OF CHANGES IN SOCIAL INSURANCE AMOUNTS

The Statement of Changes in Social Insurance Amounts reconciles changes, from the beginning of one 75-year valuation period to the next, in the: (1) present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure) over the next 75 years; (2) starting asset reserves of the combined OASI and DI Trust Funds; and (3) present value of estimated future noninterest income less estimated future cost for current and future participants over the next 75 years plus the asset reserves of the combined OASI and DI Trust Funds. These values are included in the Statement of Social Insurance. The Statement of Changes in Social Insurance Amounts shows two reconciliations: (1) changing from the period beginning on January 1, 2013 to the period beginning on January 1, 2014; and (2) changing from the period beginning on January 1, 2012 to the period beginning on January 1, 2013. The reconciliation identifies several changes that are significant and provides reasons for the changes.

The five changes considered in the Statement of Changes in Social Insurance Amounts are, in order:

- change in the valuation period;
- changes in demographic data, assumptions, and methods;
- changes in economic data, assumptions, and methods;
- changes in programmatic data and methods; and
- changes in law or policy.

All estimates in the Statement of Changes in Social Insurance Amounts represent values that are incremental to the prior change. As an example, the present values shown for economic data, assumptions, and methods represent the additional effect of these new data, assumptions, and methods after considering the effects from demography and the change in the valuation period. In general, an increase in the present value of net cashflows represents a positive change (improving financing), while a decrease in the present value of net cashflows represents a negative change (worsening financing).

### Change in the Valuation Period

#### From the period beginning on January 1, 2013 to the period beginning on January 1, 2014

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2013-2087) to the current valuation period (2014-2088) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cashflow for 2013, replaces it with a much larger negative net cashflow for 2088, and measures the present values as of January 1, 2014, one year later. Thus, the present value of estimated future net cashflows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2013-2087 to 2014-2088. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2013 are realized. The change in valuation period increased the starting level of asset reserves in the combined OASI and DI Trust Funds.

**From the period beginning on January 1, 2012 to the period beginning on January 1, 2013**

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2012-2086) to the current valuation period (2013-2087) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cashflow for 2012 and replaces it with a much larger negative net cashflow for 2087, and measures the present values as of January 1, 2013, one year later. Thus, the present value of estimated future net cashflows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2012-2086 to 2013-2087. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2012 are realized. The change in valuation period increased the level of asset reserves in the combined OASI and DI Trust Funds.

**Changes in Demographic Data, Assumptions, and Methods****From the period beginning on January 1, 2013 to the period beginning on January 1, 2014**

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2014) are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Preliminary birth rate data for 2012 indicated lower birth rates than were expected in the prior valuation. During the period of transition to their ultimate values, the birth rates in the current valuation are generally lower than they were in the prior valuation.
- New detailed historical divorce data along with revisions in the assumed path of the age-sex-adjusted divorce rate in the period of transition to the ultimate were used in the current valuation.
- New historical data since 2001 along with smoothing to the historical distribution of the married population by age of husband and wife was used in the current valuation period.

Inclusion of the new birth rate data decreased the present value of estimated future net cashflows, while the inclusion of the remaining data increased the present value of estimated future net cashflows.

There was one change in demographic methodology:

- The modeling of the other immigrant population was divided into three distinct groups for the current valuation: (1) those with temporary legal status; (2) those never authorized to be in the country; and (3) those who had temporary legal status previously but are no longer authorized to be in the country.

Inclusion of this new method increased the present value of estimated future net cashflows.

**From the period beginning on January 1, 2012 to the period beginning on January 1, 2013**

For the current valuation (beginning on January 1, 2013), changes in ultimate assumptions and recent data for immigration have significant but largely offsetting effects.

- The assumed ultimate annual immigration of “other immigrants” (i.e., those entering the country without legal permanent resident (LPR) status) is 1.4 million in the current valuation, compared with 1.5 million assumed for the prior valuation.
- The assumed ultimate annual number of persons attaining LPR status is 1.05 million for the current valuation, compared with 1.0 million assumed for the prior valuation. The distribution of the ultimate number between those entering the country with LPR status and those adjusting status after having already entered the country was also revised.

Reasons for these changes include: (1) the expectation of continued tighter border control in the future; (2) the assumed continuation of a recent increase in the number attaining LPR status as immediate relatives; and (3) the



assumed continuation of a recent increase in the proportion of persons attaining LPR status upon entering the country (rather than adjusting status after entry).

These changes to immigration assumptions increased the present value of estimated future net cashflows.

Otherwise, the ultimate demographic assumptions for the current valuation are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final mortality data for 2008 and 2009 show substantially larger reductions in death rates for the current valuation than were expected in the prior valuation. The new data show a lower starting level of death rates and a faster rate of decline in death rates over the next 25 years.
- Final fertility (birth) data for 2009 and 2010 and preliminary data for 2011 indicate lower birth rates for these years than were assumed in the prior valuation.
- New historical data for marital status, for the number of new marriages, for “other immigration,” and for the size of the population (based on the 2010 Census) were used in the current valuation.

Inclusion of the new mortality and fertility data decreased the present value of estimated future net cashflows, while the inclusion of the remaining data increased the present value of estimated future net cashflows.

### Changes in Economic Data, Assumptions, and Methods

#### From the period beginning on January 1, 2013 to the period beginning on January 1, 2014

For the current valuation (beginning on January 1, 2014), there was one change to the ultimate economic assumptions.

- The ultimate annual rate of change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is assumed to be 2.7 percent per year in the current valuation period, compared to 2.8 percent per year in the previous valuation period.

Lowering the ultimate average annual increase in the CPI-W makes it more comparable to recent historical annual increases. This change to the CPI-W assumption decreased the present value of estimated future net cashflows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed.

- The ratio of average taxable earnings to the average wage index is lower by 1.9 percent in 2012 and 1.5 percent in 2013, compared to the previous valuation period.

This change to the ratio of average taxable earnings to the average wage index decreased the present value of estimated future net cashflows.

There were two main changes in the economic methodology.

- Projected labor force participation rates for the older population are slightly lower for the current valuation in order to better reflect the difference in participation rates between never-married and married populations and the projected improvement in life expectancy.
- Different earnings levels are assigned to the three distinct groups of the other immigrant population supplied by demography. (This change decreased the present value of estimated future net cashflows by about the same amount as the related change in the demography methodology increased the present value of estimated future net cashflows.)

Inclusion of these changes in methodology decreased the present value of estimated future net cashflows.

**From the period beginning on January 1, 2012 to the period beginning on January 1, 2013**

The ultimate economic assumptions for the current valuation (beginning on January 1, 2013) are the same as those for the prior valuation. Other changes include:

- The real interest rate is projected to be lower over the first 10 years of the current valuation; and
- The starting economic values and near-term economic growth rate assumptions were updated.

The projection of lower real interest rates decreased the present value of estimated future net cashflows, while the changes to starting economic values and near-term economic growth rates increased the present value of estimated future net cashflows.

Two changes in economic methods were made for this valuation.

- The alignment of projected labor force participation rates with future trends in disability, longevity, and population levels was altered. Future changes in disability prevalence now affect labor force participation, and the starting year for longevity changes used in the participation rate projections is now consistent with the starting year for those projections.
- Ultimate age-sex specific unemployment rates based on the relative levels of long-term historical patterns were developed through the most recent historical year. This improvement is expected to substantially reduce the volatility in projected levels of these rates between valuations.

Both changes increased the present value of estimated future net cashflows.

**Changes in Programmatic Data and Methods****From the period beginning on January 1, 2013 to the period beginning on January 1, 2014**

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2014). The most significant are identified below.

- The ultimate projected ratio of income from taxation of benefits to total benefits was increased for this valuation period.
- There were also updates to programmatic data, method changes for projecting beneficiaries and benefit levels over the first 10 years of the projection period, other small methodological improvements, and interactions.

The change to taxation of benefits increased the present value of estimated future net cashflows, while updates of program-specific data decreased the present value of estimated future net cashflows. Taken together, these changes decreased the present value of estimated future net cashflows.

**From the period beginning on January 1, 2012 to the period beginning on January 1, 2013**

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2013). The most significant are identified below.

- The modeling of the number of workers insured under the programs was separated into two groups by residency status: (1) citizens and immigrants with legal permanent resident status; and (2) other immigrants. Separate modeling for these groups is important because their relative sizes in the total population have been changing and will continue to do so.
- The historical sample of earnings histories for new beneficiaries was updated to reflect new benefit entitlements in 2008 for the current valuation. The prior valuation used a sample, which reflected new benefit entitlements in 2007.

- The projections of income from taxation of benefits were better aligned between the first 10 years and the remaining years of the projection period.
- There were also minor updates to programmatic data, method changes for projecting beneficiaries and benefit levels over the first 10 years of the projection period, other small methodological improvements, and interactions among them.

Inclusion of each of these methodological improvements and updates of program-specific data increased the present value of estimated future net cashflows.

### Changes in Law or Policy

#### From the period beginning on January 1, 2013 to the period beginning on January 1, 2014

In the current valuation period (beginning on January 1, 2014), no laws were enacted that are expected to have significant effects on the long-range cost of the OASDI program. However, the Supreme Court's decision in the *United States v. Windsor* repealed parts of the *Defense of Marriage Act*, which affects the payment of Federal benefits based on same-sex marriages. The extent to which OASDI benefits based on marriage will be available to same-sex couples is still not completely clear. The agency has issued guidelines, approved by DOJ, for certain benefits for same-sex couples who were legally married when the insured accountholder resided in a State or jurisdiction that recognized same-sex marriages at the time of application or death. For estimates in this valuation, it is assumed that the agency will expand its guidelines to recognize all auxiliary beneficiaries for such marriages and that same-sex marriage will eventually be recognized in all States.

This expected expansion of benefits decreased the present value of estimated future net cashflows.

#### From the period beginning on January 1, 2012 to the period beginning on January 1, 2013

The current valuation (beginning on January 1, 2013) reflects the enactment of one law and the implementation of one policy change.

- The *American Taxpayer Relief Act of 2012* was enacted on January 2, 2013. The Act reduces Federal marginal income tax rates for most beneficiaries and thus lowers projected revenue from taxation of benefits.
- The Deferred Action for Childhood Arrivals (DACA) policy was implemented on June 15, 2012. DACA provides protection from deportation and an opportunity to work legally for many unauthorized immigrants who entered the country before age 16 and were under age 31 on June 15, 2012.

Inclusion of the *American Taxpayer Relief Act of 2012* decreased the present value of estimated future net cashflows, while inclusion of DACA increased the present value of estimated future net cashflows.

### ASSUMPTIONS USED FOR THE STATEMENT OF CHANGES IN SOCIAL INSURANCE AMOUNTS

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic and demographic assumptions used for the intermediate assumptions in the Trustees Reports for those years. Table 1 summarizes these assumptions for the current year. [Our Agency Financial Report website \(www.socialsecurity.gov/finance\)](http://www.socialsecurity.gov/finance) provides tabulated assumptions for the prior year in a similar manner.

#### Period Beginning on January 1, 2013 and Ending January 1, 2014

Present values as of January 1, 2013 are calculated using interest rates from the intermediate assumptions of the 2013 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2014. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2013 Trustees Report. Because interest rates are an economic estimate

and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement are calculated using the interest rates under the intermediate assumptions of the 2014 Trustees Report.

#### **Period Beginning on January 1, 2012 and Ending January 1, 2013**

Present values as of January 1, 2012 are calculated using interest rates from the intermediate assumptions of the 2012 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2013. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2012 Trustees Report. Since interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement are calculated using the interest rates under the intermediate assumptions of the 2013 Trustees Report.

## Required Supplementary Information: Schedule of Budgetary Resources for the Year Ended September 30, 2014

(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
<b>Budgetary Resources</b>						
Unobligated Balances, Brought Forward, October 1	\$ 0	\$ 0	\$ 394	\$ 86	\$ 506	\$ 986
Recoveries of Prior Year Unpaid Obligations	20	114	1	0	220	355
Other Changes in Unobligated Balance	242	(96)	0	(11)	(1)	134
Unobligated Balance From Prior Year Budget Authority, Net	262	18	395	75	725	1,475
Appropriations (Discretionary and Mandatory)	708,206	146,142	60,720	25,824	29	940,921
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	32	5	3,227	1	11,823	15,088
<b>Total Budgetary Resources</b>	<b>\$ 708,500</b>	<b>\$ 146,165</b>	<b>\$ 64,342</b>	<b>\$ 25,900</b>	<b>\$ 12,577</b>	<b>\$ 957,484</b>
<b>Status of Budgetary Resources</b>						
<b>Obligations Incurred</b>						
Direct	\$ 708,500	\$ 146,165	\$ 59,050	\$ 25,811	\$ 11,878	\$ 951,404
Reimbursable	0	0	3,280	1	59	3,340
Total Obligations Incurred	708,500	146,165	62,330	25,812	11,937	954,744
Unobligated Balance, End of Year						
Apportioned	0	0	2,010	42	414	2,466
Unapportioned	0	0	2	46	226	274
Total Unobligated Balance, End of Year	0	0	2,012	88	640	2,740
<b>Total Budgetary Resources</b>	<b>\$ 708,500</b>	<b>\$ 146,165</b>	<b>\$ 64,342</b>	<b>\$ 25,900</b>	<b>\$ 12,577</b>	<b>\$ 957,484</b>
<b>Change in Obligated Balance</b>						
<b>Unpaid obligations:</b>						
Unpaid Obligations, Brought Forward, October 1	\$ 65,036	\$ 25,806	\$ 1,821	\$ 318	\$ 2,336	\$ 95,317
Obligations Incurred	708,500	146,165	62,330	25,812	11,937	954,744
Outlays, Gross	(705,960)	(144,646)	(61,258)	(25,953)	(11,560)	(949,377)
Recoveries of Prior Year Unpaid Obligations	(20)	(114)	(1)	0	(220)	(355)
Unpaid Obligations, End of Year	67,556	27,211	2,892	177	2,493	100,329
<b>Uncollected payments:</b>						
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	0	0	0	(2,926)	(2,926)
Change in Uncollected Payments, Federal Sources	0	0	0	0	(237)	(237)
Uncollected Payments Federal Sources, End of Year	0	0	0	0	(3,163)	(3,163)
<b>Memorandum (non-add) Entries:</b>						
Obligated Balance, Start of Year	\$ 65,036	\$ 25,806	\$ 1,821	\$ 318	\$ (590)	\$ 92,391
Obligated balance, End of Year	\$ 67,556	\$ 27,211	\$ 2,892	\$ 177	\$ (670)	\$ 97,166
<b>Budget Authority and Outlays, Net</b>						
Budget Authority, Gross (Discretionary and Mandatory)	\$ 708,238	\$ 146,147	\$ 63,947	\$ 25,825	\$ 11,852	\$ 956,009
Actual Offsetting Collections (Discretionary and Mandatory)	(32)	(5)	(3,227)	(1)	(11,586)	(14,851)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	0	0	0	0	(237)	(237)
Budget Authority, Net (Discretionary and Mandatory)	<u>\$ 708,206</u>	<u>\$ 146,142</u>	<u>\$ 60,720</u>	<u>\$ 25,824</u>	<u>\$ 29</u>	<u>\$ 940,921</u>
Outlays, Gross (Discretionary and Mandatory)	705,960	144,646	61,258	25,953	11,560	949,377
Actual Offsetting Collections (Discretionary and Mandatory)	(32)	(5)	(3,227)	(1)	(11,586)	(14,851)
Outlays, Net (Discretionary and Mandatory)	705,928	144,641	58,031	25,952	(26)	934,526
Distributed Offsetting Receipts	(24,793)	(1,134)	(314)	(2,513)	0	(28,754)
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 681,135</b>	<b>\$ 143,507</b>	<b>\$ 57,717</b>	<b>\$ 23,439</b>	<b>\$ (26)</b>	<b>\$ 905,772</b>

## Other Information: Balance Sheet by Major Program as of September 30, 2014 (Dollars in Millions)

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	\$ (106)	\$ (187)	\$ 4,943	\$ 269	\$ (27)	\$ 0	\$ 4,892
Investments	2,712,805	70,113	0	0	0	0	2,782,918
Interest Receivable	23,278	774	0	0	0	0	24,052
Accounts Receivable, Net	0	0	0	0	3,168	(2,777)	391
Other	0	0	0	0	19	0	19
Total Intragovernmental	2,735,977	70,700	4,943	269	3,160	(2,777)	2,812,272
Accounts Receivable, Net	2,149	4,152	7,287	0	3	(405)	13,186
Property, Plant, and Equipment, Net	0	0	0	0	3,476	0	3,476
Other	0	0	0	0	4	0	4
<b>Total Assets</b>	<b>\$ 2,738,126</b>	<b>\$ 74,852</b>	<b>\$ 12,230</b>	<b>\$ 269</b>	<b>\$ 6,643</b>	<b>\$ (3,182)</b>	<b>\$ 2,828,938</b>
<b>Liabilities</b>							
Intragovernmental:							
Accrued Railroad Retirement Interchange	\$ 4,103	\$ 387	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,490
Accounts Payable	460	778	8,213	177	20	(2,777)	6,871
Other	0	0	1	2	142	0	145
Total Intragovernmental	4,563	1,165	8,214	179	162	(2,777)	11,506
Benefits Due and Payable	62,993	26,021	5,294	0	0	(405)	93,903
Accounts Payable	0	10	447	0	24	0	481
Federal Employee and Veteran Benefits	0	0	0	0	348	0	348
Other	0	0	260	2	612	0	874
Total Liabilities	67,556	27,196	14,215	181	1,146	(3,182)	107,112
Contingencies (Note 9)							
<b>Net Position</b>							
Unexpended Appropriations - All Other Funds	0	0	1,855	88	3	0	1,946
Cumulative Results of Operations - Funds from Dedicated Collections	2,670,570	47,656	4	0	0	0	2,718,230
Cumulative Results of Operations - All Other Funds	0	0	(3,844)	0	5,494	0	1,650
Total Net Position - Funds from Dedicated Collections	2,670,570	47,656	4	0	0	0	2,718,230
Total Net Position - All Other Funds	0	0	(1,989)	88	5,497	0	3,596
Total Net Position	2,670,570	47,656	(1,985)	88	5,497	0	2,721,826
<b>Total Liabilities and Net Position</b>	<b>\$ 2,738,126</b>	<b>\$ 74,852</b>	<b>\$ 12,230</b>	<b>\$ 269</b>	<b>\$ 6,643</b>	<b>\$ (3,182)</b>	<b>\$ 2,828,938</b>

**Other Information: Schedule of Net Cost for the Year Ended  
September 30, 2014**  
(Dollars in Millions)

	Program	LAE	Total
<b>OASI Program</b>			
Benefit Payment Expense	\$ 701,037	\$ 0	\$ 701,037
Operating Expenses	544	2,977	3,521
Total Cost of OASI Program	701,581	2,977	704,558
Less: Exchange Revenues	(1)	(12)	(13)
<b>Net Cost of OASI Program</b>	<b>701,580</b>	<b>2,965</b>	<b>704,545</b>
<b>DI Program</b>			
Benefit Payment Expense	142,594	0	142,594
Operating Expenses	235	2,788	3,023
Total Cost of DI Program	142,829	2,788	145,617
Less: Exchange Revenues	(26)	(11)	(37)
<b>Net Cost of DI Program</b>	<b>142,803</b>	<b>2,777</b>	<b>145,580</b>
<b>SSI Program</b>			
Benefit Payment Expense	50,844	0	50,844
Operating Expenses	140	4,052	4,192
Total Cost of SSI Program	50,984	4,052	55,036
Less: Exchange Revenues	(314)	(17)	(331)
<b>Net Cost of SSI Program</b>	<b>50,670</b>	<b>4,035</b>	<b>54,705</b>
<b>Other</b>			
Benefit Payment Expense	4	0	4
Operating Expenses	0	1,992	1,992
Total Cost of Other	4	1,992	1,996
Less: Exchange Revenues	0	(8)	(8)
<b>Net Cost of Other Program</b>	<b>4</b>	<b>1,984</b>	<b>1,988</b>
<b>Total Net Cost</b>			
Benefit Payment Expense	894,479	0	894,479
Operating Expenses	919	11,809	12,728
Total Cost	895,398	11,809	907,207
Less: Exchange Revenues	(341)	(48)	(389)
<b>Total Net Cost</b>	<b>\$ 895,057</b>	<b>\$ 11,761</b>	<b>\$ 906,818</b>



**Other Information: Schedule of Changes in Net Position for the Year Ended  
September 30, 2014**  
(Dollars in Millions)

	OASI	DI	SSI		Other	
	Funds from Dedicated Collections	Funds from Dedicated Collections	Funds from Dedicated Collections	All Other Funds	Funds from Dedicated Collections	All Other Funds
<b>Cumulative Results of Operations:</b>						
Beginning Balances	\$ 2,616,278	\$ 79,549	\$ 5	\$ (3,701)	\$ 0	\$ 0
<b>Budgetary Financing Sources</b>						
Appropriations Used	0	0	0	58,868	25,664	147
Tax Revenues	642,276	109,063	0	0	0	0
Interest Revenues	95,568	3,679	0	0	0	0
Transfers In/Out Without Reimbursement	22,287	(1,500)	(171)	(4,921)	(25,664)	(143)
Railroad Retirement Interchange	(4,297)	(390)	0	0	0	0
Net Transfers In/Out	17,990	(1,890)	(171)	(4,921)	(25,664)	(143)
Other Budgetary Financing Sources	38	58	0	0	0	0
<b>Other Financing Sources (Non-Exchange)</b>						
Transfers-In/Out	0	0	0	(2,513)	0	2,513
Imputed Financing Sources	0	0	0	16	0	0
Other	0	0	0	(753)	0	(2,513)
<b>Total Financing Sources</b>	755,872	110,910	(171)	50,697	0	4
<b>Net Cost of Operations</b>	701,580	142,803	(170)	50,840	0	4
<b>Net Change</b>	54,292	(31,893)	(1)	(143)	0	0
<b>Cumulative Results of Operations</b>	\$ 2,670,570	\$ 47,656	\$ 4	\$ (3,844)	\$ 0	\$ 0
<b>Unexpended Appropriations:</b>						
Beginning Balances	\$ 0	\$ 0	\$ 0	\$ 174	\$ 0	\$ 86
<b>Budgetary Financing Sources</b>						
Appropriations Received	0	0	0	60,549	25,664	160
Other Adjustments	0	0	0	0	0	(11)
Appropriations Used	0	0	0	(58,868)	(25,664)	(147)
<b>Total Budgetary Financing Sources</b>	0	0	0	1,681	0	2
<b>Total Unexpended Appropriations</b>	0	0	0	1,855	0	88
<b>Net Position</b>	\$ 2,670,570	\$ 47,656	\$ 4	\$ (1,989)	\$ 0	\$ 88

**Other Information: Schedule of Changes in Net Position for the Year Ended September 30, 2014  
(Continued)  
(Dollars in Millions)**

	LAE	CONSOLIDATED		CONSOLIDATED TOTAL
	All Other Funds	Funds from Dedicated Collections	All Other Funds	
<b>Cumulative Results of Operations:</b>				
Beginning Balances	\$ 5,174	\$ 2,695,832	\$ 1,473	\$ 2,697,305
<b>Budgetary Financing Sources</b>				
Appropriations Used	28	25,664	59,043	84,707
Tax Revenues	0	751,339	0	751,339
Interest Revenues	0	99,247	0	99,247
Transfers In/Out Without Reimbursement	11,750	(5,048)	6,686	1,638
Railroad Retirement Interchange	0	(4,687)	0	(4,687)
Net Transfers In/Out	11,750	(9,735)	6,686	(3,049)
Other Budgetary Financing Sources	0	96	0	96
<b>Other Financing Sources (Non-Exchange)</b>				
Transfers-In/Out	(250)	0	(250)	(250)
Imputed Financing Sources	553	0	569	569
Other	0	0	(3,266)	(3,266)
<b>Total Financing Sources</b>	12,081	866,611	62,782	929,393
<b>Net Cost of Operations</b>	11,761	844,213	62,605	906,818
<b>Net Change</b>	320	22,398	177	22,575
<b>Cumulative Results of Operations</b>	\$ 5,494	\$ 2,718,230	\$ 1,650	\$ 2,719,880
<b>Unexpended Appropriations:</b>				
Beginning Balances	\$ 2	\$ 0	\$ 262	\$ 262
<b>Budgetary Financing Sources</b>				
Appropriations Received	29	25,664	60,738	86,402
Other Adjustments	0	0	(11)	(11)
Appropriations Used	(28)	(25,664)	(59,043)	(84,707)
<b>Total Budgetary Financing Sources</b>	1	0	1,684	1,684
<b>Total Unexpended Appropriations</b>	3	0	1,946	1,946
<b>Net Position</b>	\$ 5,497	\$ 2,718,230	\$ 3,596	\$ 2,721,826

## Other Information: Schedule of Spending for the Year Ended September 30, 2014 (Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Consolidated
<b>What Money is Available to Spend?</b>						
Total Resources	\$ 708,500	\$ 146,165	\$ 64,342	\$ 25,900	\$ 12,577	\$ 957,484
Less Amount Available but Not Agreed to be Spent	0	0	(2,010)	(42)	(414)	(2,466)
Less Amount Not Available to be Spent	0	0	(2)	(46)	(226)	(274)
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 708,500</b>	<b>\$ 146,165</b>	<b>\$ 62,330</b>	<b>\$ 25,812</b>	<b>\$ 11,937</b>	<b>\$ 954,744</b>
<b>How was the Money Spent/Issued?</b>						
Financial Assistance Direct Payments	\$ 701,411	\$ 142,882	\$ 57,176	\$ 6	\$ 47	\$ 901,522
Payroll	0	0	0	0	6,375	6,375
Contracts						
Travel	0	0	0	0	33	33
Rent, Utilities, and Communications	0	0	1	0	1,151	1,152
Acquisition of Capital Assets	0	0	0	0	532	532
Other Contractual Services	8	134	95	0	3,734	3,971
Inter-Fund Transfers	2,487	2,928	5,092	25,807	0	36,314
Railroad Board Transfers	4,296	390	0	0	0	4,686
Other	298	(169)	(34)	(1)	65	159
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 708,500</b>	<b>\$ 146,165</b>	<b>\$ 62,330</b>	<b>\$ 25,812</b>	<b>\$ 11,937</b>	<b>\$ 954,744</b>

Certain amounts reported in the schedule above can be tied to specific line items on the Statements of Budgetary Resources presented on page 47. The Total Resources, Amount Available but Not Agreed to be Spent, Amount Not Available to be Spent, and Amount Agreed to be Spent balances reported above tie to the Total Budgetary Resources, Unobligated Balance – Apportioned, Unobligated Balance – Unapportioned, and Total Obligations Incurred lines, respectively, on the Statements of Budgetary Resources. The detailed line items presented under the How was the Money Spent/Issued section are not reported on the Statements of Budgetary Resources; however, the total of these amounts ties to the Total Obligations Incurred line reported.

The detailed line items reported above will not tie to amounts reported in [USASpending.Gov](http://USASpending.Gov). USASpending.Gov is a website that provides information on how tax dollars are spent. The website focuses specifically on spending related to contracts, grants, loans, and other types of spending. Included in the other types of spending are Federal benefit payments. While some of these categories are broken out in the above Schedule of Spending, the two reports will not tie as amounts reported in the schedule above include transactions with both Federal and non-Federal entities.

## Other Information: Schedule of Spending for the Year Ended September 30, 2013 (Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Consolidated
<b>What Money is Available to Spend?</b>						
Total Resources	\$ 674,016	\$ 142,832	\$ 60,310	\$ 55,944	\$ 11,903	\$ 945,005
Less Amount Available but Not Agreed to be Spent	0	0	(394)	(45)	(289)	(728)
Less Amount Not Available to be Spent	0	0	0	(41)	(217)	(258)
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 674,016</b>	<b>\$ 142,832</b>	<b>\$ 59,916</b>	<b>\$ 55,858</b>	<b>\$ 11,397</b>	<b>\$ 944,019</b>
<b>How was the Money Spent/Issued?</b>						
Financial Assistance Direct Payments	\$ 666,621	\$ 139,313	\$ 56,032	\$ 8	\$ 28	\$ 862,002
Payroll	0	0	0	0	6,309	6,309
Contracts						
Travel	0	0	0	0	37	37
Rent, Utilities, and Communications	0	0	2	0	1,106	1,108
Acquisition of Capital Assets	0	0	0	0	278	278
Other Contractual Services	4	125	86	0	3,638	3,853
Inter-Fund Transfers	2,920	2,733	3,766	55,850	0	65,269
Railroad Board Transfers	4,118	560	0	0	0	4,678
Other	353	101	30	0	1	485
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 674,016</b>	<b>\$ 142,832</b>	<b>\$ 59,916</b>	<b>\$ 55,858</b>	<b>\$ 11,397</b>	<b>\$ 944,019</b>

Certain amounts reported in the schedule above can be tied to specific line items on the Statements of Budgetary Resources presented on page 47. The Total Resources, Amount Available but Not Agreed to be Spent, Amount Not Available to be Spent, and Amount Agreed to be Spent balances reported above tie to the Total Budgetary Resources, Unobligated Balance – Apportioned, Unobligated Balance – Unapportioned, and Total Obligations Incurred lines, respectively, on the Statements of Budgetary Resources. The detailed line items presented under the How was the Money Spent/Issued section are not reported on the Statements of Budgetary Resources; however, the total of these amounts ties to the Total Obligations Incurred line reported.

The detailed line items reported above will not tie to amounts reported in [USASpending.Gov](http://USASpending.Gov). USASpending.Gov is a website that provides information on how tax dollars are spent. The website focuses specifically on spending related to contracts, grants, loans, and other types of spending. Included in the other types of spending are Federal benefit payments. While some of these categories are broken out in the above Schedule of Spending, the two reports will not tie as amounts reported in the schedule above include transactions with both Federal and non-Federal entities.

## REQUIRED SUPPLEMENTARY INFORMATION: SOCIAL INSURANCE

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### PROGRAM DESCRIPTION

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The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as “Social Security,” provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2013, SSA paid OASDI benefits to about 58 million beneficiaries. The laws applicable for the period determine eligibility and benefit amounts. Current law provides that the amount of the monthly benefit payments for workers and their eligible dependents or survivors is based on the workers’ lifetime earnings histories.

The OASDI program is financed largely on a pay-as-you-go basis--that is, OASDI payroll taxes paid each year by current workers are primarily used to pay the benefits provided during that year to current beneficiaries. The retired-worker benefits it pays replaces a larger proportion of earned income for lower earners than for higher earners. Changes in laws governing the program may alter the amount of OASDI income (e.g., payroll taxes) and benefits.

### PROGRAM FINANCES AND SUSTAINABILITY

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As discussed in Note 9 to the Consolidated Financial Statements, a liability of \$89 billion as of September 30, 2014 (\$84 billion as of September 30, 2013) is included in “Benefits Due and Payable” on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date. Virtually all of this amount was paid in October 2014. Also, an asset of \$2,783 billion as of September 30, 2014 (\$2,756 billion as of September 30, 2013) is recognized for the “investments in Treasury securities.” These investments are referred to as the combined OASI and DI Trust Fund asset reserves throughout the remainder of this required supplementary information. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government (see Investments and Interest Receivable, Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2014 because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid or are due to be paid because benefit payments are nonexchange transactions and are not considered deferred compensation as would be employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes as a liability retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker’s expected retirement benefits has been recognized by the time the worker retires.

**Required Supplementary Information** - While no liability has been recognized on the balance sheet for future obligations beyond those due at the reporting date, actuarial estimates are made of the long-range financial status of the OASDI program and are presented here. Throughout this section, the following terms will generally be used as indicated:

- **Income:** payroll taxes from employers, employees, and self-employed persons; revenue from Federal income tax on scheduled OASDI benefits; interest income from Treasury securities held as asset reserves of the OASI and DI Trust Funds; and miscellaneous reimbursements from the General Fund of the Treasury;

- **Income excluding interest (Noninterest Income):** income, as defined above, excluding the interest income from Treasury securities held as asset reserves of the OASI and DI Trust Funds;
- **Cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **Cashflow:** depending on the context, either income, noninterest income, or cost;
- **Net cashflow:** either income less cost or noninterest income less cost; however, net cashflow in this section refers to noninterest income less cost; and
- **Present value:** the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the obligations as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in *The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (2014 Trustees Report) (see Note 18 to the Statement of Social Insurance). The Statement of Social Insurance, the Statement of Changes in Social Insurance Amounts, and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current *Social Security Act*, including future changes previously enacted. This information includes:

- (1) present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;
- (2) estimated annual income, income (excluding interest), and cost as percentages of taxable payroll and gross domestic product (GDP);
- (3) the ratio of estimated covered workers to estimated beneficiaries; and
- (4) an analysis of the sensitivity of the projections to changes in selected assumptions.

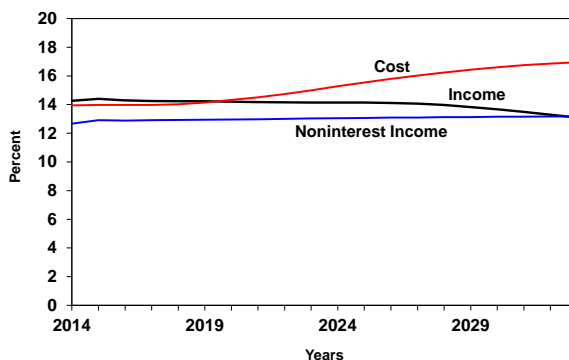
**Sustainable Solvency** - Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program does not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits in full on a timely basis and maintain asset reserves in the combined OASI and DI Trust Funds at all times within the 75-year projection period. In addition, the asset reserves in the combined OASI and DI Trust Funds would need to be stable or rising as a percentage of annual program cost at the end of the period.

**Cashflow Projections** - Charts 1 through 4 show annual cashflow projections for the OASDI program. OASDI noninterest income and cost are estimated for each year from 2014 through 2088. However, income including interest is only estimated through 2033, the year that the asset reserves in the combined OASI and DI Trust Funds are projected to deplete. After the point of such depletion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income (noninterest income). Therefore, displaying annual income levels beyond the point of combined OASI and DI Trust Fund depletion would be inappropriate unless the cost of scheduled benefits was replaced by the amount of benefits that would be payable.

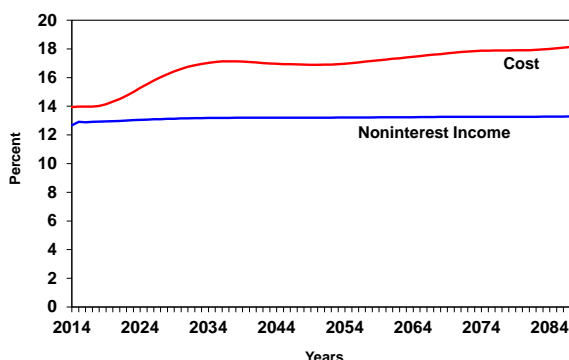
Estimates are for the open-group population (i.e., all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both during that period). Therefore, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. They also include cost for such workers and their dependents during that period.

**Amounts as a Percentage of Taxable Payroll** - Chart 1 shows estimated annual income, noninterest income, and cost through 2033 expressed as percentages of taxable payroll. Chart 2 is an extension of Chart 1, showing estimated annual noninterest income and cost through 2088 expressed as percentages of taxable payroll.

**Chart 1 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of Taxable Payroll, 2014-2033**



**Chart 2 – Estimated OASDI Noninterest Income, and Cost, as a Percent of Taxable Payroll, 2014-2088**



As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent) and the 12.4 percent that is paid on taxable self-employment income. (For calendar years 2011 and 2012, a 2 percent temporary reduction in the employee and the self-employment payroll tax rates was made up by reimbursements from the General Fund of the Treasury.) In all years of the projection period, estimated annual cost is more than estimated annual income excluding interest. After 2018, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2035 and is rising at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 72 percent of the estimated cost.

As Chart 1 shows, estimated cost starts to exceed income including interest in 2020. This occurs because of a variety of factors including the retirement of the baby boom generation, the relatively small number of people born during the subsequent period of lower birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated annual cost is projected to exceed noninterest income in all years of the projection period. In any year, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption differs from the situation of prior years when the combined OASI and DI Trust Funds had been net lenders to the General Fund of the Treasury. The Government could finance this redemption by increasing its borrowing from the public, raising taxes (other than OASDI payroll taxes), and/or reducing expenditures (other than OASDI cost). Alternatively, the Government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.

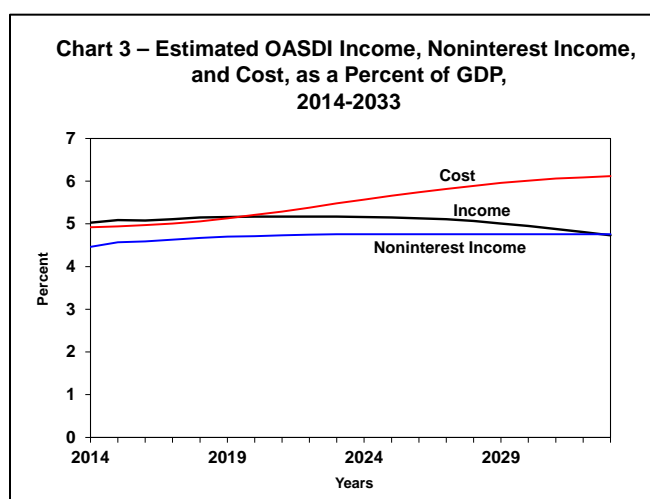


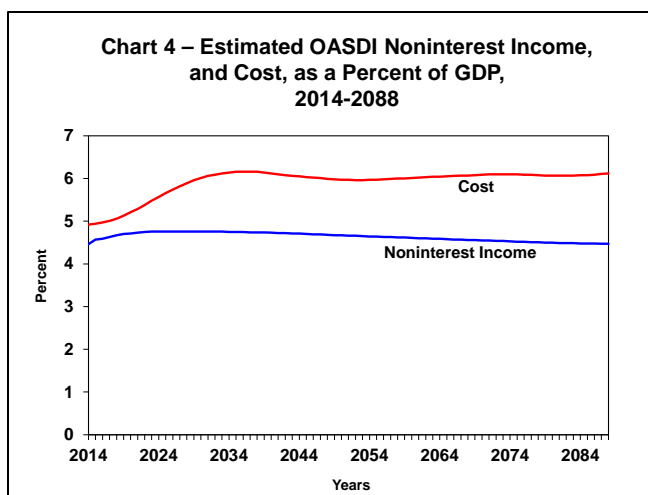
**Actuarial Balance** - The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -\$13,330 billion. If augmented by the combined OASI and DI Trust Fund asset reserves at the start of the period (January 1, 2014), it is -\$10,565 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.88 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level at the end of the period equal to total projected cost for the 76<sup>th</sup> year of the period.

For the combined OASI and DI Trust Funds to remain solvent throughout the 75-year projection period, revenues would have to increase by an amount equivalent to an immediate and permanent payroll tax increase of 2.83 percentage points (from its current level of 12.40 percent to 15.23 percent). One interpretation of the actuarial balance is that its magnitude, 2.88 percent, should equal the necessary increase. However, the increase is different for two reasons. First, the necessary tax rate is the rate required to maintain solvency throughout the period that results in no asset reserves in the OASI and DI Trust Funds at the end of the period, whereas the actuarial balance incorporates an ending asset reserve in the OASI and DI Trust Funds equal to one year's cost. Second, the necessary tax rate reflects a behavioral response to tax rate changes, whereas the actuarial balance does not. In particular, the calculation of the necessary tax rate assumes that an increase in payroll taxes results in a small shift of wages and salaries to forms of employee compensation that are not subject to the payroll tax.

Alternatively, solvency could be achieved by reducing scheduled benefits by an amount equivalent to an immediate and permanent reduction of 17.4 percent applied to all current and future beneficiaries, or of 20.8 percent if the reductions were applied only to newly entitled beneficiaries. Finally, some combination of both tax increases and benefit reductions could be adopted.

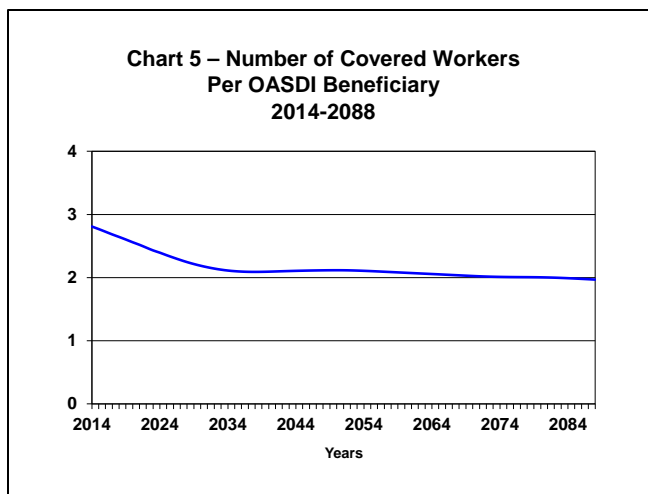
**Amounts as a Percentage of Gross Domestic Product** - Chart 3 shows estimated annual income, noninterest income, and cost through 2033 expressed as percentages of GDP. Chart 4 is an extension of Chart 3, showing estimated annual noninterest income and cost through 2088 expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the estimated GDP, which represents the total value of goods and services produced in the United States, provides a measure of the cost of the OASDI program in relation to the size of the national economy that must finance it.





In 2013, OASDI cost was about \$823 billion, which was about 4.9 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.0 percent of GDP in 2030, hits a peak of 6.2 percent of GDP in 2037, declines to 6.0 percent in 2052, and then slowly increases, reaching 6.1 percent of GDP by 2088. The rapid increase from 2015 to 2030 is projected to occur as baby boomers become eligible for OASDI benefits, lower birth rates result in fewer workers per beneficiary, and beneficiaries continue to live longer.

**Ratio of Workers to Beneficiaries** - Chart 5 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes based on services for wages in covered employment and/or income from covered self-employment. The estimated number of workers per beneficiary declines from 2.8 in 2013 to 2.0 in 2088.



## SENSITIVITY ANALYSIS

Projections of the future financial status of the OASDI program depend on many demographic and economic assumptions, including fertility, mortality, net immigration, average wages, inflation, and interest rates on Treasury securities. The income will depend on how these factors affect the size and composition of the working population and the level and distribution of wages and earnings. Similarly, the cost will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits. Because perfect long-range projections of these factors are impossible and actual experience is likely to differ from the estimated or assumed values of these factors, this section is included to illustrate the sensitivity of the long-range projections to changes in assumptions by analyzing six key assumptions: total fertility rate, mortality, net immigration, real-wage differential, consumer price index, and real interest rate. The range of values chosen for the sensitivity analysis is intended to present a reasonable range within which future experience is generally expected to fall, on average over long time periods. The range of values is not intended to represent any particular probability interval around the intermediate assumptions.

For this analysis, the intermediate assumptions in the 2014 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2014 and are based on estimates of income and cost during the 75-year projection period 2014-2088. In this section, for brevity, “income” means “noninterest income.”

For each assumption analyzed, one table and one chart are presented. The table shows the present value of the estimated excess of OASDI income over cost based on each of three selected values of the assumption being analyzed. The middle values provided correspond to the intermediate assumption of the Trustees. The chart shows the present value of each annual net cashflow.

Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Report presents high-cost and low-cost alternative assumption sets, which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more assumption changes may not be equal to the sum of the effects shown separately. The Trustees, in their annual report, also include estimates using a stochastic model developed by the Office of the Chief Actuary. These estimates provide an additional way of analyzing variability in assumptions, income, and cost.

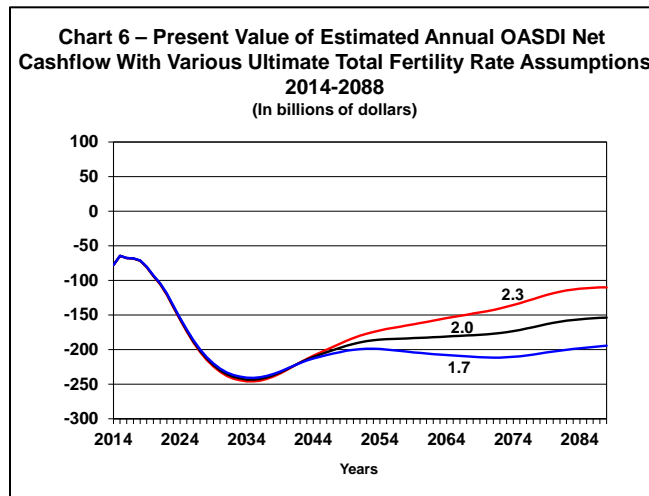
**Total Fertility Rate** - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.7, 2.0, and 2.3 children per woman, where 2.0 is the intermediate assumption in the 2014 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2038.

Table 1 demonstrates that if the ultimate total fertility rate were changed from 2.0 children per woman, the Trustees’ intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to \$14,486 billion from \$13,330 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to \$12,158 billion.

**Table 1: Present Value of Estimated Excess of OASDI Income over Cost  
With Various Ultimate Total Fertility Rate Assumptions  
Valuation Period: 2014-2088**

Ultimate Total Fertility Rate	1.7	2.0	2.3
Present Value of Estimated Excess (In billions)	-\$14,486	-\$13,330	-\$12,158

Using the same total fertility rates used for the estimates in Table 1, Chart 6 shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 6 are similar. The present values based on all three ultimate total fertility rates are negative in all years of the 75-year projection period. The net cashflow estimates corresponding to a 1.7 ultimate total fertility rate increase (become less negative) in 2015, decrease in years 2016-2035, and then generally increase thereafter. The net cashflow estimates corresponding to a 2.0 and a 2.3 ultimate total fertility rate follow the same pattern; increasing (becoming less negative) in 2015, decreasing in years 2016-2035, and increasing thereafter. Based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2088 than it would to cover the annual deficit in 2035.

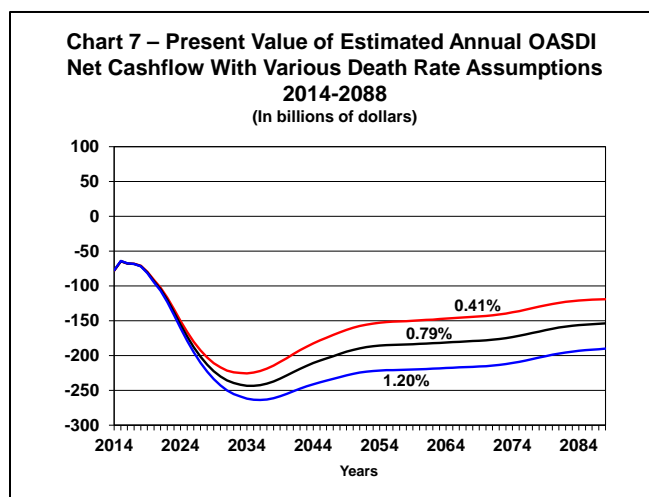
**Mortality** - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2013-2088 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.41, 0.79, and 1.20 percent per year, where 0.79 percent is the intermediate assumption in the 2014 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 27, 45, and 60 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 78.8 in 2013 to 82.6, 85.7, and 88.8 in 2088 for average annual reductions in the age-sex-adjusted death rate of 0.41, 0.79, and 1.20 percent, respectively.

Table 2 demonstrates that if the annual reduction in death rates were changed from 0.79 percent, the Trustees' intermediate assumption, to 0.41 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to \$11,454 billion from \$13,330 billion; if the annual reduction were changed to 1.20 percent, meaning that people live longer, the shortfall would increase to \$15,318 billion.

**Table 2: Present Value of Estimated Excess of OASDI Income over Cost  
With Various Death Rate Assumptions  
Valuation Period: 2014-2088**

Average Annual Reduction in Death Rates (from 2013 to 2088)	0.41 Percent	0.79 Percent	1.20 Percent
Present Value of Estimated Excess (In billions)	-\$11,454	-\$13,330	-\$15,318

Using the same assumptions about future reductions in death rates used for the estimates in Table 2, Chart 7 shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 7 are similar. Under all three sets of assumptions, the net cashflow estimates are negative in all years of the 75-year projection period. After increasing (becoming less negative) in 2015, the present values are expected to decrease rapidly until around 2030. Present values based on all three sets of assumptions begin to increase (become less negative) in the 2030's (2035, 2036, and 2037 for projected reductions of 0.41, 0.79, and 1.20 percent per year, respectively). Therefore, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time, and continues to increase through 2088.

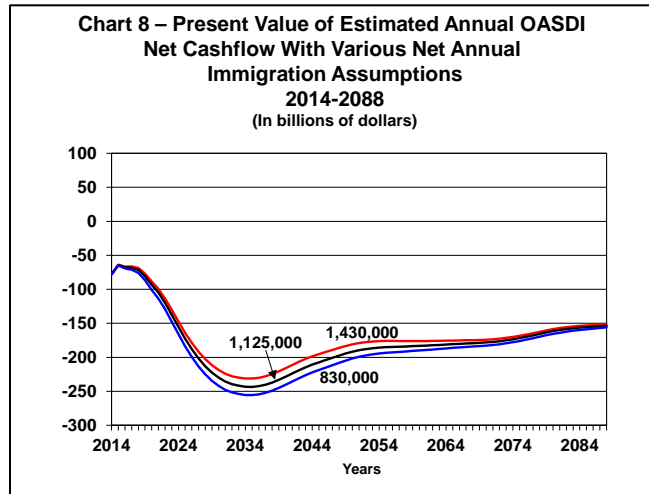
**Net Annual Immigration** - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of annual immigration. Assumptions are made about the levels of legal immigration, legal emigration, other immigration, and other emigration. Based on these levels, it is projected that net annual immigration (legal and other) will average 830,000 persons, 1,125,000 persons, and 1,430,000 persons over the 75-year valuation period, where 1,125,000 persons is the average value based on the intermediate assumptions in the 2014 Trustees Report.

Table 3 demonstrates that if the Trustees' intermediate immigration assumptions were changed so that the average level for the 75-year period decreased from 1,125,000 persons to 830,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to \$13,897 billion from \$13,330 billion. If, instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,430,000 persons, the present value of the shortfall would decrease to \$12,793 billion.

**Table 3: Present Value of Estimated Excess of OASDI Income over Cost  
With Various 75-Year Average Net Annual Immigration Assumptions  
Valuation Period: 2014-2088**

75-Year Average Net Annual Immigration	830,000 Persons	1,125,000 Persons	1,430,000 Persons
Present Value of Estimated Excess (In billions)	-\$13,897	-\$13,330	-\$12,793

Using the same assumptions about net annual immigration used for the estimates in Table 3, Chart 8 shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 8 are similar. The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. Net cashflow estimates corresponding to net annual immigration averages of 830,000 persons and 1,125,000 persons increase (become less negative) in 2015, decrease steadily through 2035 and increase thereafter. Net cashflow estimates corresponding to net annual immigration averages of 1,430,000 persons follow a similar pattern, generally decreasing after 2015 through 2034 and generally increasing (becoming less negative) thereafter.

Very little difference is discernible in the first few years among the estimates of present values of net annual cashflow based on the three sets of assumptions about annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more apparent. Because immigration generally occurs at relatively young adult ages, the effects initially are similar to those of total fertility rates. There is no significant effect on beneficiaries (and, therefore, on benefits) in the early years but the effect on the numbers of workers (and, therefore, on payroll tax income) is immediate. Therefore, even in the early years, the present values, year by year, are generally higher (less negative in later years) for higher net annual immigration. However, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. Therefore, the present values based on the three assumptions about net annual immigration become more similar at the end of the projection period.

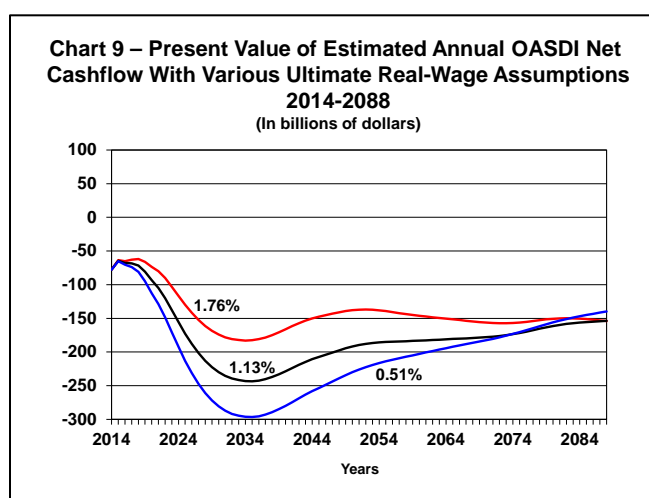
**Real-Wage Differential** - The annual real-wage differential is the difference between the percentage increases in: (1) the average annual wage in OASDI covered employment; and (2) the average annual Consumer Price Index (CPI). The ultimate real-wage differential is the average of the annual real-wage differential for the last 65 years of the 75-year projection period. Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.51, 1.13, and 1.76 percentage points, where 1.13 percentage points is the intermediate assumption in the 2014 Trustees Report. In each case, the ultimate annual increase in the CPI is

assumed to be 2.70 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.21, 3.83, and 4.46 percent, respectively.

Table 4 demonstrates that if the ultimate real-wage differential were changed from 1.13 percentage point, the Trustees' intermediate assumption, to 0.51 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to \$15,051 billion from \$13,330 billion; if the ultimate real-wage differential were changed from 1.13 to 1.76 percentage points, the shortfall would decrease to \$10,730 billion.

<b>Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2014-2088</b>			
Ultimate Annual Increase in Wages, CPI; <b>Real-Wage Differential</b>	3.21%, 2.70%; <b>0.51%</b>	3.83%, 2.70%; <b>1.13%</b>	4.46%, 2.70%; <b>1.76%</b>
Present Value of Estimated Excess (In billions)	-\$15,051	-\$13,330	-\$10,730

Using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4, Chart 9 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. Estimated cashflows increase (become less negative) in 2015 for the assumed ultimate real-wage differentials of 0.51 and 1.13 percentage points. Estimated cash flows increase in 2015, decrease in 2016, and then increase in 2017 and 2018 for the assumed ultimate real-wage differential of 1.76 percentage points. The present values then decrease through 2035 for assumed ultimate real-wage differentials of 0.51 and 1.13 percentage points and through 2034 for the assumed ultimate real-wage differential of 1.76. Present values based on all three assumptions begin to increase (become less negative) by 2036. Therefore, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.76 percentage points, the present values continue to increase until 2053 when decreases begin again and generally continue throughout the remainder of the projection period. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns



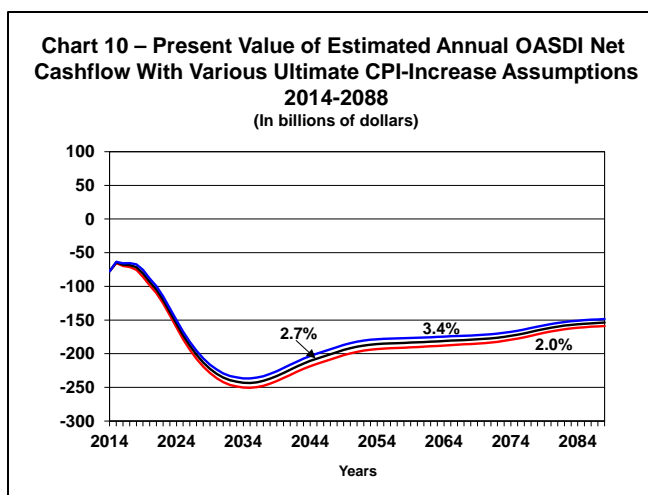
of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, toward the end of the projection period, annual net cashflow becomes more similar for all assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds noninterest income. These effects are depicted by the patterns in Chart 9 coming together at the end of the projection period.

**Consumer Price Index** - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 2.00, 2.70, and 3.40 percent, where 2.70 percent is the intermediate assumption in the 2014 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.13 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.13, 3.83, and 4.53 percent, respectively.

Table 5 demonstrates that if the ultimate annual increase in the CPI were changed from 2.70 percent, the Trustees' intermediate assumption, to 2.00 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to \$13,797 billion from \$13,330 billion; if the ultimate annual increase in the CPI were changed to 3.40 percent, the shortfall would decrease to \$12,878 billion. The seemingly counter-intuitive result that higher CPI increases result in decreased shortfalls (and vice versa) is explained by the time lag between the effects of the CPI changes on taxable payroll and on benefit payments. The effect on taxable payroll due to a greater increase in average wages is experienced immediately, while the effect on benefits is experienced with a lag of about one year. For this reason, larger increases in the CPI cause earnings and income to increase sooner and, therefore, by more each year, than benefits and cost.

<b>Table 5: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate CPI-Increase Assumptions Valuation Period: 2014-2088</b>			
Ultimate Annual Increase in Wages, CPI; Real-Wage Differential	3.13%, <b>2.00%</b> ; 1.13%	3.83%, <b>2.70%</b> ; 1.13%	4.53%, <b>3.40%</b> ; 1.13%
Present Value of Estimated Excess (In billions)	-\$13,797	-\$13,330	-\$12,878

Using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5, Chart 10 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 10 are similar. Net cashflow estimates

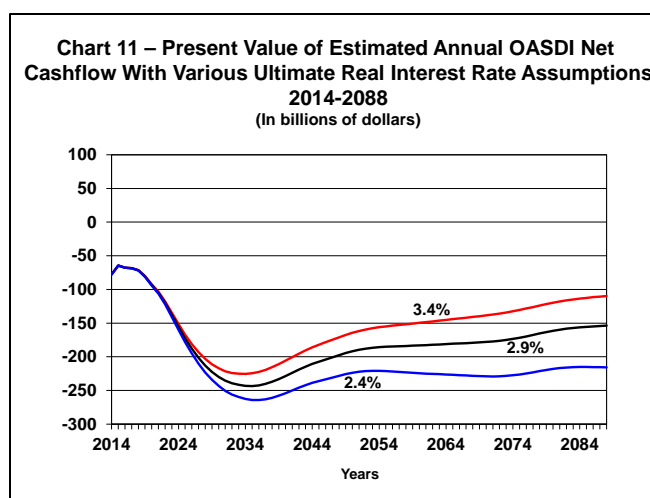
decrease (become more negative) in years 2016-2035 for assumed ultimate annual increases in the CPI of 2.00 and 2.70. For an ultimate annual CPI increase of 3.40, net cashflow estimates decrease in 2016, increase in 2017, and then decrease in 2018-2034. For all other years in the projection period, all three sets of assumptions increase (become less negative). Therefore, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) by 2036, and continues to increase through 2088.

**Real Interest Rate** - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.4, 2.9, and 3.4 percent, where 2.9 percent is the intermediate assumption in the 2014 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

Table 6 demonstrates that if the ultimate real interest rate were changed from 2.9 percent, the Trustees' intermediate assumption, to 2.4 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms would increase to \$15,756 billion from \$13,330 billion; if the ultimate annual real interest rate were changed to 3.4 percent, the present-value shortfall would decrease to \$11,389 billion.

<b>Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real Interest Assumptions Valuation Period: 2014-2088</b>			
Ultimate Annual Real Interest Rate	2.4 Percent	2.9 Percent	3.4 Percent
Present Value of Estimated Excess (In billions)	-\$15,756	-\$13,330	-\$11,389

Using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 6, Chart 11 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 11 are similar. After increasing (becoming less negative) in 2015, the present values are expected to decrease rapidly until around 2030. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2037, 2036, and 2035 for assumed ultimate real interest rates of 2.4, 2.9, and 3.4 percent, respectively). Therefore, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. The present values for all three sets of assumptions continue to generally increase throughout the remaining projection period.

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# AUDITOR'S REPORTS



November 10, 2014

The Honorable Carolyn W. Colvin  
Acting Commissioner

The *Chief Financial Officers Act of 1990 (CFO)* (Pub. L. No. 101-576), as amended, requires that the Social Security Administration's (SSA) Inspector General (IG) or an independent external auditor, as determined by the IG, audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), Grant Thornton, LLP, an independent certified public accounting firm, audited SSA's Fiscal Year (FY) 2014 financial statements. Grant Thornton, LLP, also audited the FY 2013 financial statements presented in SSA's FY 2014 Agency Financial Report for comparative purposes. This letter transmits the Grant Thornton, LLP, *Independent Auditor's Report* on the audit of SSA's FY 2014 financial statements. Grant Thornton, LLP's, report includes the following.

- Opinion on Financial Statements
- Opinion on Management's Assertion About the Effectiveness of Internal Control
- Report on Compliance and Other Matters

## OBJECTIVE OF A FINANCIAL STATEMENT AUDIT

The objective of a financial statement audit is to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used, and significant estimates made, by management as well as an evaluation of the overall financial statement presentation.

Grant Thornton, LLP, conducted its audit in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as considered necessary under the circumstances. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially in the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

## **AUDIT OF FINANCIAL STATEMENTS, EFFECTIVENESS OF INTERNAL CONTROL, AND COMPLIANCE WITH LAWS AND REGULATIONS**

Grant Thornton, LLP, issued an unmodified opinion on SSA's FY 2014 and 2013 financial statements. Grant Thornton, LLP, also reported that SSA was maintaining effective internal control over financial reporting as of September 30, 2014 based on criteria under OMB Circular A-123, *Management's Responsibility for Internal Control*, and the *Federal Manager's Financial Integrity Act of 1982* (FMFIA). However, Grant Thornton, LLP, did identify two significant deficiencies in internal controls.

### **Significant Deficiency - Information Systems Control**

It is Grant Thornton, LLP's, opinion that SSA made progress in strengthening controls over its information systems to address the significant deficiency reported in FY 2013. While SSA continued executing its risk-based approach to strengthen controls over its systems and address weaknesses, Grant Thornton, LLP's, FY 2014 testing identified similar control issues in both design and operation of key controls. In its audit, Grant Thornton, LLP, identified five deficiencies that, when aggregated, are considered to be a significant deficiency in the areas of Information Systems Controls. Specifically, Grant Thornton, LLP's, testing disclosed

1. issues with network security controls during testing of threat and vulnerability management processes;
2. recurring issues were noted during field work associated with security management, physical access controls, and platform security. Further, they noted areas where SSA's requirements and guidance was ambiguous and not sufficiently documented, resulting in noncompliance or inconsistent implementation with SSA policy. Finally, they noted that an information system developed in a regional office did not consistently follow SSA policy and requirements;
3. lack of comprehensive Agency-wide policy and procedures related to management of application and system software changes, including identification of all critical types of changes, security categorization and risk analysis for changes, testing requirements based on risk, and requirements for the review and approval of testing results;
4. lack of controls related to identifying and monitoring high-risk programs operating on the mainframe; and
5. weaknesses in logical access controls, such as access authorization, access removal, profile content, and analysis review program and supporting profile controls.

### **Significant Deficiency - Calculation, Recording, and Prevention of Overpayments**

In addition to the Information Systems Control significant deficiency, Grant Thornton, LLP, identified three deficiencies in internal control that, when aggregated, are considered to be a significant deficiency related to weaknesses in internal controls related to Calculation, Recording, and Prevention of Overpayments. Specifically, Grant Thornton, LLP's, testing disclosed

1. control weaknesses over overpayment documentation and overpayment calculation errors with 12 percent of items selected in its statistical sample, which can lead to difficulties in substantiating accounts receivable balances;
2. system limitations where overpayment receivable installments extending beyond Year 2049 were not systematically tracked and reported; and
3. control failures where SSA was not reconciling key data fields between SSA internal databases, resulting in overpayment errors.

Grant Thornton, LLP, identified no reportable instances of noncompliance with the laws, regulations, or other matters tested.

## OIG EVALUATION OF GRANT THORNTON, LLP, AUDIT PERFORMANCE

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored Grant Thornton, LLP's, audit of SSA's FY 2014 financial statements by

- reviewing Grant Thornton, LLP's, audit approach and planning;
- evaluating its auditors' qualifications and independence;
- monitoring the audit's progress at key points;
- examining Grant Thornton, LLP's, documentation related to planning the audit, assessing SSA's internal control, and substantive testing;
- reviewing Grant Thornton, LLP's, audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 14-02;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

Grant Thornton, LLP, is responsible for the attached auditor's report, dated November 10, 2014, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding Grant Thornton, LLP's, performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and, accordingly, we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where Grant Thornton, LLP, did not comply with applicable auditing standards.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of this report to appropriate congressional committees with oversight and appropriation responsibilities over SSA. In addition, we will post a copy of the report on our public Website.



Patrick P. O'Carroll, Jr.  
Inspector General



Audit • Tax • Advisory

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The Honorable Carolyn W. Colvin  
Acting Commissioner  
Social Security Administration

## INDEPENDENT AUDITOR'S REPORT

In our audit of the Social Security Administration (SSA), we found:

- The consolidated balance sheets of SSA as of September 30, 2014 and 2013, the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, the statements of social insurance as of January 1, 2014 and January 1, 2013 and statement of changes in social insurance amounts for the periods January 1, 2013 to January 1, 2014 and January 1, 2012 to January 1, 2013 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's internal control over financial reporting was operating effectively as of September 30, 2014; and,
- No reportable instances of noncompliance with laws, regulations, or other matters tested.

The following sections outline each of these conclusions in more detail.

### OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2014 and 2013, which comprise the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, the statements of social insurance as of January 1, 2014, January 1, 2013, January 1, 2012, January 1, 2011, and January 1, 2010 and the statements of changes in social insurance amounts for the periods January 1, 2013 to January 1, 2014 and January 1, 2012 to January 1, 2013 and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal*





*Financial Statements.* Those standards and OMB Bulletin No. 14-02 requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as, evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

### **Opinion**

In our opinion, the financial statements referred to above and presented on pages 44 through 82 of this Agency Financial Report (AFR), present fairly, in all material respects, the financial position of SSA as of September 30, 2014 and 2013, its net cost of operations, changes in net position, and budgetary resources for the years then ended, the financial condition of its social insurance program as of January 1, 2014, January 1, 2013, January 1, 2012, January 1, 2011, and January 1, 2010 and changes in social insurance amounts for the period January 1, 2013 to January 1, 2014 and January 1, 2012 to January 1, 2013, in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the financial statements, the statements of social insurance present the actuarial present value of SSA's estimated future income to be received from or on behalf of the participants and estimated future expenditures to be paid to or on behalf of participants during a projection period sufficient to illustrate long-term sustainability of the social insurance program. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

### **OPINION ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL**

We have examined management's assertion included on page 35 of this AFR, that SSA maintained effective internal control over financial reporting as of September 30, 2014, based on criteria established under 31 U.S.C. 3512(c), (d), the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), and the OMB Circular No. A-123, *Management's Responsibility for Internal Control*. We did not test all internal controls, relevant to the operating objectives broadly, defined by FMFIA. SSA's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting included in the accompanying FMFIA Assurance Statement on page 35 of this AFR. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA); and internal control audit requirements included in OMB Bulletin No. 14-02. Attestation standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.



An Agency's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with generally accepted accounting principles. An Agency's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Agency; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Agency are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Agency's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. No deficiencies in internal control were identified that were considered material weaknesses. However, material weaknesses may exist that have not been identified.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies that, in the aggregate, are considered significant deficiencies in the areas of Information Systems Controls and Calculation, Recording and Prevention of Overpayments.

## **SIGNIFICANT DEFICIENCY - INFORMATION SYSTEMS CONTROLS**

### **Overview**

Management relies extensively on information systems operations for the administration and processing of the Title II and Title XVI programs, to both process and account for their expenditures, as well as, for financial reporting. Internal controls over these environments are essential for the reliability and integrity of the program's data and mitigate the risks of misstatements whether due to fraud or error.

Our internal control testing covered both general and application controls. General controls encompass the security management program, access controls (physical and logical), configuration and change management, segregation of duties, and service continuity/contingency planning. General controls provide the foundation for the integrity of systems including applications and the system software which make up the general support systems for the major applications. General controls, combined with application level controls, are critical to ensure accurate and complete processing of transactions and integrity of stored data. Application controls include controls over input, processing of data, and output of data as well as interface, master file, and other user controls. These controls provide assurance over the completeness, accuracy, and validity of data. Our audit included testing of the Agency's mainframe, networks, databases, applications, and other supporting systems and was conducted at headquarters, as well as, off-site locations.



## Deficiencies Noted in Information Systems

SSA continues to make progress in strengthening controls over its information systems to address the significant deficiency reported in FY 2013. In response to continued control weaknesses, SSA developed functional remediation teams to investigate issues, identify root causes, and implement corrective actions. Each functional remediation team, with oversight from SSA leadership, took risk-based approaches to remediation addressing higher risk areas immediately, and planning for future security enhancements. Management's risk based approach included correction of vulnerabilities identified through our specific tests, as well as, development and implementation of institutionalized and repeatable processes to prevent future weaknesses.

While SSA continued executing its risk-based approach to strengthen controls over its systems and address weaknesses, our FY 2014 testing identified similar control issues in both design and operation of key controls. We believe that, in many cases, these deficiencies continue to exist because of one, or a combination, of the following:

- Risk mitigation strategies and related control enhancements require additional time to be fully implemented or to effectuate throughout the environment.
- SSA focused its resources on higher risk weaknesses, and therefore; was unable to implement corrective action, for all aspects of the prior year deficiencies.
- The design of control enhancements or newly designed controls did not completely address risks and recommendations provided over past audits.
- Oversight and governance were not sufficient to address issues with the operational effectiveness of controls.

We noted deficiencies that contribute to the significant deficiency in the areas of threat and vulnerability management, information technology (IT) oversight and governance, change management, mainframe security and access controls.

## Threat and Vulnerability Management

Software should be scanned and updated frequently to guard against security threats. Effective vulnerability and patch management as well as virus protection programs ensure that security threats are identified, risks are assessed, and actions are taken to prevent inappropriate access or software errors within an organization's IT environment. Our testing identified control weaknesses with network security controls and vulnerability management. Specific disclosure of detailed information about these weaknesses might further compromise controls and are therefore not provided within this report. Rather, the specific details are presented in a separate, limited-distribution management letter.

## IT Oversight and Governance

Appropriate governance and oversight provides assurance that risks are assessed, controls are appropriately designed, and are operating effectively across the Agency's locations. Through the Agency's security management program, SSA's risk management framework must include a continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of those procedures. Our field testing identified recurring issues associated with security management, physical access controls, and platform security. Further, there are areas where SSA's requirements and guidance was ambiguous and/or not sufficiently documented, which resulted in inconsistent implementation or noncompliance with SSA's policy. Finally, we noted that an information system developed in a regional office did not consistently follow SSA's System Development Lifecycle (SDLC) and Security Assessment and Authorization (SA&A) requirements.



### **Change Management**

Change management processes provide assurance that software, data, and other changes associated with information systems are approved and tested so they do not introduce functional or security risks. A disciplined process for testing, approving, and migrating changes between environments, including into production, is essential to ensure that systems operate as intended and that no unauthorized changes are implemented. Our testing identified a lack of comprehensive Agency-wide policy and procedures related to management of application and system software changes, including identification of all critical types of changes, security categorization and risk analysis for changes, testing requirements based on risk, and requirements for the review and approval of testing results.

### **Mainframe Security**

Mainframe system software includes programs that are essential to the effective functioning of the operating system. Some of these programs act as an extension of the operating system and therefore are required to access restricted functions and can override security. Maintaining an authorized listing of high risk programs and implementing appropriate change and monitoring controls is essential to mainframe security. Our testing identified a lack of controls related to the identification and monitoring of high-risk programs operating on the mainframe. We noted the Agency had not finalized and fully implemented controls associated with ensuring that privileged programs were identified, were approved, could only be modified appropriately, and posed no security risks.

### **Access Controls**

Access controls provide assurance that critical systems assets are physically safeguarded and that logical access to sensitive applications, system utilities, and data is provided only when authorized and appropriate. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately accessed and/or disclosed. Our testing identified control failures related to appropriate completion of logical access authorization forms and timely removal of location access. Further, we continue to note that SSA did not have an authoritative source to identify and manage all contractors and therefore was unable to supply actual departure dates for contractors to substantiate timely removal of access. Finally, we noted that SSA management continued to make progress in assessing profile content to validate that profiles only provide access to the minimal resources required for users to complete job functions. However, SSA had not completed the review of all profiles that are relevant to critical applications and supporting systems nor had SSA completed other profile quality initiatives including, but not limited to, some control enhancements. As a result of these deficiencies, we noted numerous issues of unauthorized and inappropriate access including application developers (programmers) who had unmonitored access to production data and application transactions, key transactions and data, key change management libraries, and other sensitive system software resources.

### **Recommendations**

In order to mitigate the risks of the issues noted in the significant deficiency, management should consider the following:

- Continue, as part of the SSA threat and vulnerability management processes, prioritization and implementation of risk mitigation strategies and plans of action and milestones.
- Enhance current IT oversight and governance processes to ensure SSA IT risk management requirements are effectively and consistently implemented.
- Develop comprehensive policies and procedures related to application and system-software change management that address issues noted during the audit.
- Develop a comprehensive program to identify and monitor high-risk programs operating on the mainframe.



- Analyze access authorization and removal processes to determine whether current controls mitigate the risk of unauthorized access and modify controls considering automation and control monitoring.
- Continue, as part of the SSA profile quality program, additional profile content reviews and profile improvement initiatives.

## **SIGNIFICANT DEFICIENCY - CALCULATION, RECORDING AND PREVENTION OF OVERPAYMENTS**

### **Overview**

Benefit overpayments occur when beneficiaries receive payments beyond their entitled amount. Upon detection of an overpayment, the Agency records an accounts receivable with the public to reflect the amount due to SSA from the beneficiary. Because of the nature of the benefit payment programs, SSA has extensive operations geographically dispersed throughout the United States. Overpayment detection, calculation, and documentation can take place in various places, including approximately 1,300 Field Offices (FOs) or eight Program Service Centers (PSCs). Therefore, SSA has specific policies and procedures in place to ensure consistent treatment and documentation of overpayments and the related accounts receivable balances. Since this process can be complex for some cases and relies heavily on manual input, SSA's adherence to its policies and procedures is critical to correct and timely decisions, and accurately tracking balances. Management also relies heavily on its IT infrastructure, interfaces and controls to record and prevent erroneous payments.

### **Deficiencies in Overpayment Calculations and Records**

Similar to prior years, Grant Thornton noted controls deficiencies in the documentation maintained around overpayments. Insufficient documentation to support overpayments can lead to difficulties in calculating and substantiating outstanding accounts receivable balances. We selected a statistical sample of overpayments and noted overpayment calculation errors with 12 percent of the items selected. Although the impact of these calculation errors is not deemed material to the financial statements, these errors evidence control weaknesses in the accounts receivable process, including inappropriate overpayment tracking.

### **Deficiencies in Overpayment Records and Tracking**

Large overpayment balances are often paid back to SSA in monthly installments. Payments of these installments can go beyond the Year 2049. SSA has identified a systems limitation where receivable installments extending past the Year 2049 are not tracked and reported systematically. Therefore, the accounts receivable balances related to these overpayments is understated. The projected understatements are immaterial. This issue has been previously discussed in Government Accountability Office (GAO) reports and continues to be studied by SSA.

While the Agency is working on enhancing the capabilities to properly account for these receivables and updating policies to avoid longer term repayment programs, failure to resolve the Year 2049 issue will continue to increase the likelihood of manual errors as well as continue to understate accounts receivable balances.

### **Deficiencies in Overpayment Prevention**

While conducting Computer Assisted Auditing Techniques (CAATs), we identified certain key data fields, such as Date of Death, which did not agree between SSA internal databases (master files). As a result, our testing detected overpayments issued to a limited number of individuals who were not entitled to benefits. While these cases were clearly immaterial to SSA financial statements, they were indicative of a control failure where SSA's data reconciliations were not operating effectively and/or where potential discrepancies were not acted upon in a timely fashion in order to detect and prevent overpayment errors. While overpayments occur for many reasons, SSA should take all possible actions under their control to prevent and detect such payments. Failure to detect overpayments results in continued erroneous benefit payments and unrecorded corresponding accounts



receivable. The longer an overpayment goes undetected, the greater the overpayment balance becomes while the probability of accounts receivable collection decreases.

### **Recommendations**

To mitigate the risks of the issues noted in the significant deficiency, management should consider the following:

#### **Deficiencies in Overpayment Calculations and Records**

- Continue evaluating current overpayment balances, based on a risk based approach, to detect and correct errors in existing overpayment balances, considering manual intervention, balance, and age.
- Enhancing documentation requirements and improve overpayment documentation tools to ensure overpayments are completely, accurately, and timely documented by FOs or PSCs within the appropriate systems of record.
- Continue to increase management review over manual transactions impacting overpayment balances.
- Consider implementing additional system controls over routine overpayment transactions to prevent and detect errors.

#### **Deficiencies in Overpayment Records and Tracking**

- Evaluating technical enhancements that will address payment plans that extend beyond the Year 2049.
- Continue pursuing changes in repayment policy to minimize future long term repayment plans.

#### **Deficiencies in Overpayment Prevention**

- Continue enhancing periodic reconciliations between SSA data which can impact payment amounts in order to detect and act on overpayments more timely.

In our opinion, management's assertion that SSA maintained effective internal control over financial reporting as of September 30, 2014 is fairly stated, in all material respects, based on criteria established under FMFIA and OMB Circular No. A-123.

### **REPORT ON COMPLIANCE AND OTHER MATTERS**

The management of SSA is responsible for compliance with laws, regulations, grants and contract agreements, if applicable. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of compliance with laws, regulations, and contracts, including laws governing the use of budgetary authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 14-02, and other laws and regulations, noncompliance with which could have a direct and material effect on the financial statements. Under the *Federal Financial Management Improvement Act of 1996* (FFMIA), we are required to report whether SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

We did not test compliance with all regulations and contracts applicable to SSA. We limited our tests of compliance to the provisions of laws, regulations and contracts cited in the preceding paragraph of this report. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.





The results of our test of compliance disclosed no instances of noncompliance with laws, regulations and contracts, or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and no instances of substantial noncompliance that are required to be reported under FFMIA.

#### **Other Matters**

The Management's Discussion and Analysis (MD&A) and the Schedule of Budgetary Resources included on pages 6 through 40 and page 83, respectively, and the Required Supplementary Information (RSI) included on pages 90 through 101 of this AFR are not a required part of the basic financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the AICPA. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Information**

The Acting Commissioner's Message on page 1 and the other information included on pages 2 through 5, 41 through 43, 84 through 89, 102 through 105 and 114 to the end of this AFR, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Our report is intended solely for the information and use of management of SSA, the Office of the Inspector General, the OMB, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Alexandria, Virginia  
November 10, 2014





## SOCIAL SECURITY

The Commissioner

November 10, 2014

Grant Thornton LLP  
333 John Carlyle St.  
Alexandria, VA 22314

Ladies and Gentlemen:

We have reviewed the draft Independent Auditor's Report concerning your audit of our fiscal year (FY) 2014 financial statements. We are extremely pleased that we received our 21<sup>st</sup> consecutive unmodified opinion on our financial statements, an unmodified opinion on management's assertion that our internal controls were operating effectively, and that we had no reportable instances of noncompliance with laws, regulations, or other matters tested by you.

We are pleased that you acknowledged our progress in strengthening controls over our information systems to address the significant deficiency reported in FY 2013. While we made significant progress to strengthen controls over our systems and to address the previously identified weaknesses, you identified control issues in both the design and operation of key controls, which resulted in a significant deficiency in information systems controls. We concur with your recommendations and remain committed to the continuous enhancement of our internal controls over information systems. We will continue to pursue a risk-based corrective action plan to address threat and vulnerability management, information technology oversight and governance, change management, mainframe security, and access controls.

Your report also identified certain deficiencies related to the calculation, recording, and prevention of overpayments that, when aggregated, you considered a significant deficiency. We acknowledge the need to strengthen our overpayment controls. We will continue to implement the necessary risk-based corrective actions to calculate, record, track, and prevent overpayments.

We have enclosed a more detailed explanation of our plans.

If members of your staff have any questions, they may contact Carla Krabbe at (410) 965-0759.

Sincerely,

Carolyn W. Colvin  
Acting Commissioner

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Enclosure – Page 1 – Grant Thornton LLP

Comments of the Social Security Administration (SSA) on Grant Thornton LLP's  
Draft Independent Auditor's Report

General Comments

Thank you for the opportunity to comment on the draft Independent Auditor's Report concerning our fiscal year (FY) 2014 financial statements.

We are pleased that your report notes our progress in strengthening controls over our information systems to address the prior year significant deficiency. As we did in FY 2014, we will continue to strengthen our security program by remediating and institutionalizing the processes we put in place, making risk-based decisions, continuing to leverage current agency processes, and adding layers of defense to our current security program.

Your report also identified certain deficiencies related to the calculation, recording, and prevention of overpayments. We acknowledge the need to strengthen our controls in the overpayment process and will implement the necessary risk-based corrective actions to calculate, record, track, and prevent overpayments.

We offer the following comments.

**Significant Deficiency - Information Systems Controls**

Recommendation 1 - Threat and Vulnerability Management

Continue, as part of the SSA threat and vulnerability management processes, prioritization and implementation of risk mitigation strategies and plans of action and milestones.

Comment

We agree with this recommendation. In FY 2013, we instituted our daily penetration test program. In FY 2014, we continued to mature our program, which includes vulnerability management processes, prioritization and implementation of risk mitigation strategies, and plans of action and milestones. We integrated processes that worked effectively, prioritized vulnerabilities, and analyzed the requirements for a comprehensive end-to-end process. We will continue to remediate and prioritize any additional vulnerability through our improving process.

Enclosure – Page 2 – Grant Thornton LLP

### Recommendation 2 - Information Technology (IT) Oversight and Governance

Enhance current IT oversight and governance processes to ensure SSA IT risk management requirements are effectively and consistently implemented.

#### Comment

We agree with this recommendation. We are working to improve the completeness of our IT inventory processes; identify potential gaps; create processes for identifying IT applications developed by non-Deputy Commissioner for Systems components; and establish criteria for IT applications subject to Security Assessment and Authorization requirements, based on boundary determination. We will also focus on our IT risk management requirements to make sure that we effectively and consistently implement them at the agency.

For disability determinations services (DDS), we continue to expand the suitability clearance process to identify and strengthen our controls surrounding Homeland Security Presidential Directive 12, suitability clearances for the State DDSs. We are also developing an automated, standardized DDS Security Plan that will include logs to facilitate the annual review and recertification of physical access to DDS facilities, including sensitive areas such as the computer room. The plan will require annual review and recertification of all parts, including the access logs. The DDS Security Plan will include logs to facilitate the review of AS/400 security relevant events and command line access of users with privileged access and special authorities. Development is already underway, with release expected in FY 2015.

The Disability Program Operations Manual System (DI POMS) is currently under revision to align with the Information Systems Security Handbook, and to provide clear requirements (e.g., inspection of applicable audit logs). We are currently circulating portions of the DI POMS for intercomponent review.

We are reviewing the possibility of piloting the Second User ID policy in two processing centers to determine the feasibility of incorporating the policy for use by processing center programmers.

### Recommendation 3 - Change Management

Develop comprehensive policies and procedures related to application and system-software change management that address issues noted during the audit.

#### Comment

We agree with this recommendation. In FY 2014, we continued to develop comprehensive policies and procedures related to application and system-software change management. For FY 2015, we will continue to develop and implement change management policies and procedures.

Enclosure – Page 3 – Grant Thornton LLP

#### Recommendation 4 - Mainframe Security

Develop a comprehensive program to identify and monitor high-risk programs operating on the mainframe.

#### Comment

We agree with this recommendation. We will continue developing a comprehensive program to identify and monitor high-risk programs operating on the mainframe. In FY 2014, we began a manual review of privileged programs. We will continue to take a risk-based approach to address the highest-risk programs first.

#### Recommendation 5 - Access Controls

Analyze access authorization and removal processes to determine whether current controls mitigate the risk of unauthorized access and modify controls considering automation and control monitoring.

#### Comment

We agree with this recommendation. In FY 2014, we implemented an electronic process to grant access. In FY 2015, we will implement a fully automated process to grant logical access. This fully automated process will help continue to mitigate the control failures in access authorization.

#### Recommendation 6 - Access Controls

Continue, as part of the SSA profile quality program, additional profile content reviews and profile improvement initiatives.

#### Comment

We agree with this recommendation. As we did in FY 2013, in FY 2014 we took a risk-based approach to perform the review of profile content. In FY 2015, the sixth profile content review campaign will include batch profiles. We are also reevaluating our Profile Quality Program to improve our profile initiatives.

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### **Significant Deficiency - Calculation, Recording, and Prevention of Overpayments**

#### **Deficiencies in Overpayment Calculations and Records**

##### Recommendation 1

Continue evaluating current overpayment balances, based on a risk based approach, to detect and correct errors in existing overpayment balances, considering manual intervention, balance, and age.

##### Comment

We agree with this recommendation. We continue our efforts to identify and implement effective risk-based approaches to detect and correct overpayment errors.

##### Recommendation 2

Enhancing documentation requirements and improve overpayment documentation tools to ensure overpayments are completely, accurately, and timely documented by FOs or PSCs within the appropriate systems of record.

##### Comment

We agree with this recommendation. Through our Continuous Quality Initiative, we continue to address overpayment documentation issues and improve overpayment documentation tools, where feasible, to ensure field offices (FO) and processing centers completely, accurately, and timely document overpayments.

##### Recommendation 3

Continue to increase management review over manual transactions impacting overpayment balances.

##### Comment

We agree with this recommendation. Through our Continuous Quality Initiative, we will perform additional reviews of overpayments both in FOs and in the processing centers.

Enclosure – Page 5 – Grant Thornton LLP

#### Recommendation 4

Consider implementing additional system controls over routine overpayment transactions to prevent and detect errors.

#### Comment

We agree with this recommendation. As we complete the analysis of our Continuous Quality Initiative results, we will identify systems enhancements to improve our ability to prevent and detect overpayment errors.

### **Deficiencies in Overpayment Records and Tracking**

#### Recommendation 1

Evaluating technical enhancements that will address payment plans that extend beyond the year 2049.

#### Comment

We agree with this recommendation. We continue to explore a strategic approach for multiple long-term solutions to address payment plans that extend beyond the year 2049. This approach may include changes to our systems, policies, and procedures.

In August 2014, we contracted with an external firm to document and assess our processes for recording, monitoring, and reporting on partial withholdings of program debt that extend beyond the year 2049. The external firm will perform a risk and impact assessment and provide recommended actions to mitigate the identified risks. We expect to receive the assessment and related recommendations in FY 2015.

#### Recommendation 2

Continue pursuing changes in repayment policy to minimize future long-term repayment plans.

#### Comment

We agree with this recommendation. We are evaluating our repayment policy to identify ways to minimize long-term repayment plans. To help minimize the number of such plans, we are pursuing a notice of proposed rulemaking that will increase the minimum amount that we withhold to recover overpayments to 10 percent of a beneficiary's Old-Age, Survivors, and Disability Insurance benefit amount.

Enclosure – Page 6 – Grant Thornton LLP

## **Deficiencies in Overpayment Prevention**

### **Recommendation 1**

Continue enhancing periodic reconciliations between SSA data, which can impact payment amounts in order to detect and act on overpayments more timely.

### **Comment**

We agree with this recommendation. We implemented a recurring monthly death match process, and we are working on a Death Process Redesign project to streamline the reconciliation processes. Upon completion of the Death Process Redesign project, we will have one source of agency death information, which will result in fewer instances of inconsistent death inputs to reconcile. Through multiple phases and software releases, we are improving our collection, processing, and reconciliation of death data across all benefit payment systems. We expect to implement the final phase by the end of FY 2016.

We will:

- Correct a matching code error with the release of the Supplemental Security Record Decompression project;
- Review, revise, and clarify policy, as appropriate, to address data discrepancies;
- Reevaluate whether there are additional policy changes we can make to address your concern with respect to the prioritization and remediation timeframes for systems alerts;
- Review and revise policy, as appropriate, to reinforce policy and procedures regarding the completeness and accuracy of data entry into the multiple systems affecting claimants' and beneficiaries' records.



# OTHER INFORMATION



The *Other Information* section provides information to satisfy additional statutory and Office of Management and Budget reporting requirements.

In accordance with the *Reports Consolidation Act of 2000*, the *IG Statement on SSA's Major Management and Performance Challenges* provides a summary and assessment of the most serious management and performance challenges we face as determined by the Office of the Inspector General (OIG). The OIG also describes the steps we have taken to address each of the challenges.

Next, in *Other Reporting Requirements*, we provide a summary of our financial statement audit and management assurances. We also provide information on our entitlement reviews, the OIG's anti-fraud activities, our biennial review of user fee charges, our actions to comply with the Freeze the Footprint initiative, and our debt management activities.

Finally, the *Other Information* section concludes with the *Improper Payments Information Detailed Report*. In this section, we provide general information demonstrating our commitment to reducing improper payments. We also describe our efforts in reducing improper payments for our Old-Age, Survivors, and Disability Insurance and Supplemental Security Income benefit programs and administrative payments.

## IG STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES



November 10, 2014

The Honorable Carolyn W. Colvin  
Acting Commissioner

Dear Ms. Colvin:

The *Reports Consolidation Act of 2000* (Pub. L. No. 106-531) requires that Inspectors General summarize and assess the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. The *Reports Consolidation Act* also requires that the Social Security Administration (SSA) place the final version of this Statement in its annual *Agency Financial Report*.

In Fiscal Year (FY) 2014, we focused on eight management and performance challenges. One overriding issue of great concern is discussed below, and the other issues are discussed in the attached report.

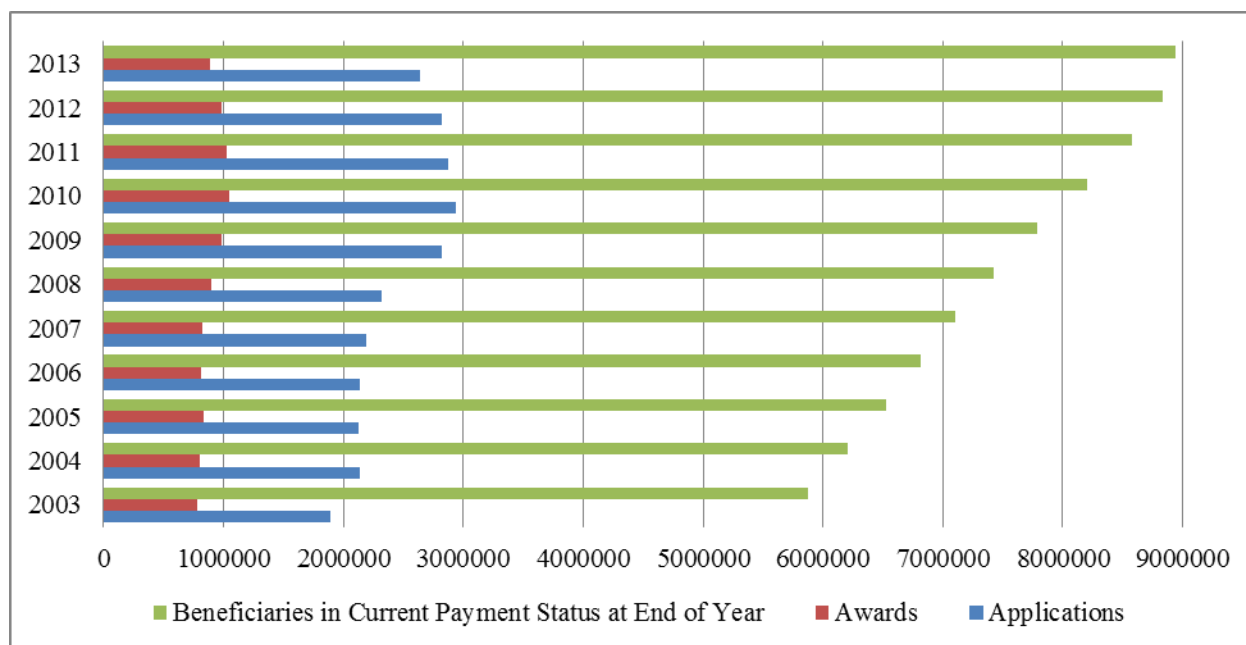
### DISABILITY INSURANCE TRUST FUND SOLVENCY

The Board of Trustees of the Social Security Trust Funds' latest [Annual Report](#) projected that the reserves of the Disability Insurance (DI) Trust Fund, which have been declining since 2009, will continue declining until they are depleted in 2016. When reserves are depleted, income to the DI Trust Fund would be sufficient to only pay 81 percent of scheduled DI benefits.

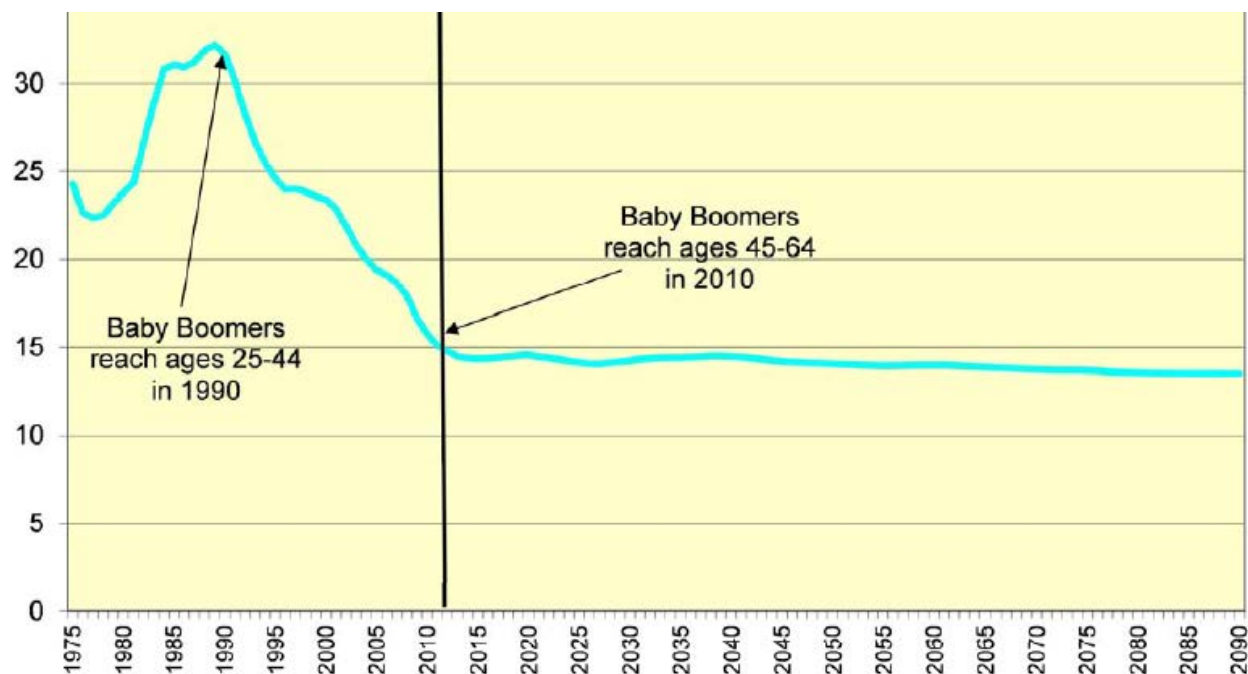
**Table 1: DI Trust Fund 2009-2013 (in millions)**

Calendar Year	Total Receipts	Total Expenditures	Net Increase During Year	Assets at End of Year
2009	109,283	121,506	-12,223	203,550
2010	104,017	127,660	-23,643	179,907
2011	106,276	132,332	-26,056	153,850
2012	109,115	140,299	-31,184	122,666
2013	111,228	143,450	-32,221	90,445

Over the last couple of decades, the baby boom generation has moved from less disability prone ages (25 to 44) to more disability prone ages (45 to 64). This is reflected in the increased DI applications, awards, and insured beneficiaries over the last decade.

**Figure 1: DI Trust Fund Statistics 2003 to 2013**

As more baby boomers seek disability benefits, raising costs to the Trust Fund, there are fewer workers paying into the DI Trust Fund to support current beneficiaries.

**Figure 2: Workers per Disability Insurance Beneficiary**

The Trustees concluded that legislative action is needed as soon as possible to address the DI program's financial imbalance. They suggested that lawmakers may consider responding to the impending DI Trust Fund reserve depletion by reallocating the payroll tax rate between Old-Age and Survivors Insurance and DI.

We share the Trustees' concerns. Absent an act of Congress, the *Social Security Act* (Pub. L. No. 74-271) does not permit further funding or allow SSA to make benefit payments from funds other than the Trust Funds. Consequently, if the Social Security Trust Funds become depleted, current law would effectively prohibit SSA from paying full Social Security benefits on a timely basis. The Agency would then have to decide on the best course of action for paying disabled beneficiaries. SSA needs to plan for this contingency, and it needs to share its plan with Congress and the American public. SSA needs to be proactive in fostering a dialogue on this critical issue to help determine how SSA will pay DI benefits in 2016 and beyond.

## OTHER MANAGEMENT AND PERFORMANCE CHALLENGES

As we planned our audit work for FY 2014, we identified the following challenges in addition to DI Trust Fund Solvency.

- Reduce the Hearings Backlog and Prevent its Recurrence
- Improve the Timeliness and Quality of the Disability Process
- Reduce Improper Payments and Increase Overpayment Recoveries
- Improve Customer Service
- Invest in Information Technology Infrastructure to Support Current and Future Workloads
- Strengthen the Integrity and Protection of the Social Security Number
- Improve Transparency and Accountability
- Strengthen Strategic and Tactical Planning

We recently combined the last two challenges listed above into one – Strengthen Planning, Transparency, and Accountability. We concluded that the three elements of planning, transparency, and accountability are critical to sound management and should be considered collectively.

We further discuss these challenges in the attached document. In the description of each challenge, we define the challenge, outline steps the Agency has taken to address it, and detail actions SSA still needs to take to fully mitigate the issue. We used multiple sources to determine the status of each of the identified challenges. For example, we used statistics reported by SSA and Office of the Inspector General audits of SSA's operations. We also used the FY 2014 independent auditor's report, which contained the results of SSA's financial statement audit. The report concluded that SSA had two significant deficiencies in internal control. These issues are discussed in detail in the enclosure.

My office will continue focusing on these issues in FY 2015. We will also continue assessing SSA's operations and the environment in which SSA operates to ensure our reviews focus on the most salient issues facing the Agency.

I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively.

Sincerely,



Patrick P. O'Carroll, Jr.  
Inspector General

Enclosure

***Fiscal Year 2014  
Inspector General Statement  
on the  
Social Security Administration's  
Major Management and Performance Challenges***



***November 2014***

## REDUCE THE HEARINGS BACKLOG AND PREVENT ITS RECURRENCE

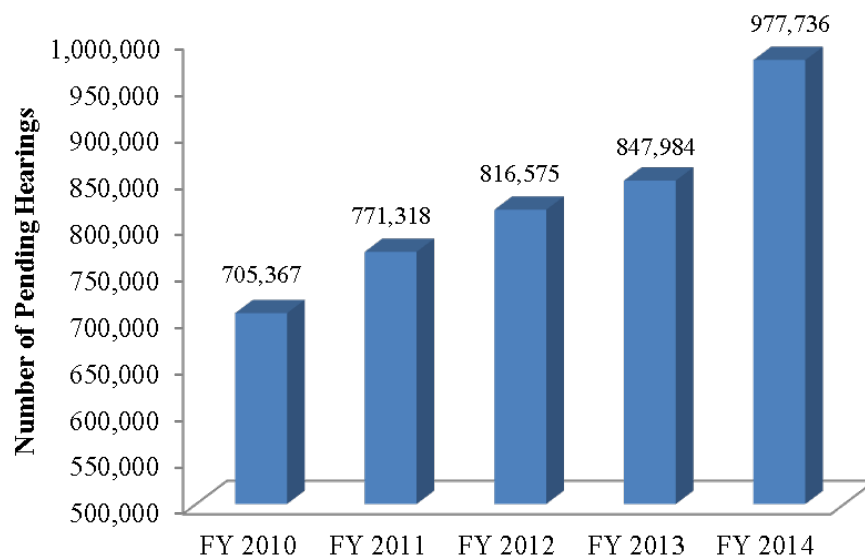
### CHALLENGE

While the Social Security Administration (SSA) has emphasized the need for quality, consistency, and timeliness in its disability decisions, this remains a challenge as the hearings backlog approaches 1 million cases and timeliness continues to worsen.

### HEARINGS BACKLOG

The hearings process is a key piece of the Agency's disability process, providing the public with an opportunity to appeal an earlier State disability determination services (DDS) decision. Since Fiscal Year (FY) 2010, the pending hearings backlog has increased annually. While the number of new receipts has declined over the past 4 years, it has exceeded dispositions. The backlog was about 705,000 cases in FY 2010 and grew to over 977,000 pending cases by the end of FY 2014 (see Figure 1).

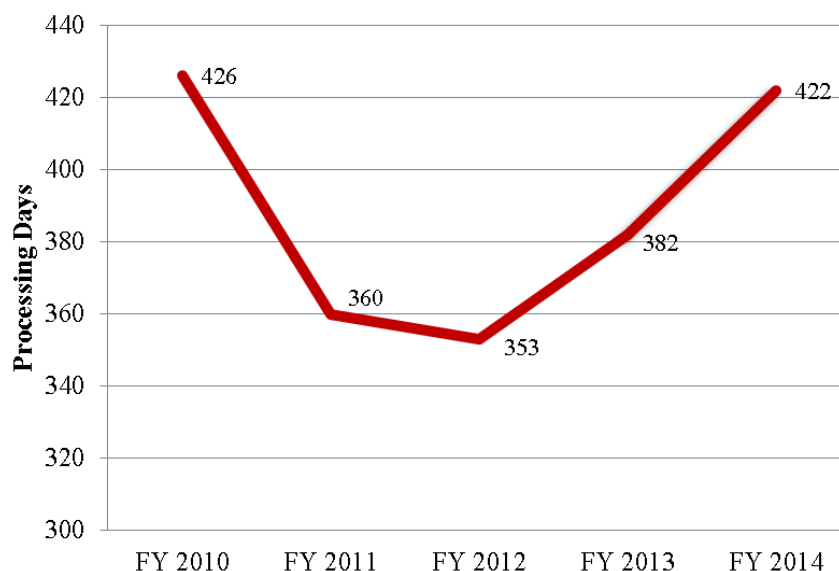
**Figure 1: Pending Hearings Backlog**



### HEARING TIMELINESS

SSA's hearings processing timeliness was about 426 days in FY 2010. SSA made progress in reducing hearing waiting time to an average of 353 days in FY 2012. However, timeliness increased to an average of 422 days per case in FY 2014 (see Figure 2).



**Figure 2: Hearing Average Processing Time**

## ADJUDICATORY CAPACITY

The Agency's ability to reduce the backlog and improve timeliness depends in large part on its adjudicatory capacity. The number of available administrative law judges (ALJ) grew by 18 percent from FY 2010 to FY 2013, but this number dropped in FY 2014 (see Table 1). SSA experienced delays in hiring new ALJs in part because the Agency exhausted the ALJ register administered by the Office of Personnel Management. As the Deputy Commissioner for Disability Adjudication and Review noted in November 2013 testimony, "The number of hearing requests we receive each year remains high, and we are losing many ALJs and support staff due to attrition, whom we are unable to replace. We are doing what we can to hold steady on our progress despite the loss of employees."

**Table 1: Trends in Available ALJs**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Number of Available ALJs	1,154	1,230	1,301	1,356	1,311

Cases decided by senior attorney adjudicators (SAA), who can make on-the-record allowances, has declined in recent years, leading to a reduction in the Agency's adjudicatory capacity. While SAAs decided about 54,000 cases in FY 2010, they decided only 19,000 cases in FY 2013. In late FY 2013, SSA implemented a National Screening Unit pilot program to screen cases for possible on-the-record favorable decisions. This pilot has further reduced the number of favorable decisions issued by SAAs. In FY 2014, SAAs decided about 1,900 cases.

## AGENCY ACTIONS

The Agency has taken a number of steps to improve the quality, consistency, and timeliness of cases. For instance, since FY 2011, the Agency has been reviewing the quality of ALJ allowance decisions before their effectuation to ensure the cases were decided in a manner consistent with Agency policy. SSA has also enhanced its monitoring of ALJ workloads, created tools so ALJs and other employees can compare their workload to their peers' workloads, and focused greater attention on subsequent appellate actions on ALJ decisions—what it calls the "agreement rate." In addition, the Agency continues to focus on the oldest cases in the hearings backlog to ensure they are resolved. Finally, as noted earlier, the Agency is also hiring new ALJs and refocusing the work of the SAAs to address the growing backlog and timeliness issues.

In our audits, we have attempted to assist the Agency as it reviews outlier activity and provides meaningful feedback to adjudicators and staff. In our December 2013 report, *Analysis of Hearing Offices Using Key Risk Factors*, we provided SSA with an additional model to evaluate the performance of individual hearing offices using multiple criteria. Moreover, in our July 2014 report, *Subsequent Appellate Actions Taken on Denials Issued by Low-Allowance ALJs*, we highlighted additional ways the Agency can provide case quality data to its adjudicators.

### WHAT THE AGENCY NEEDS TO DO

**Continue to focus on reducing the hearings backlog and average processing times.** The number of pending claims is approaching one million claims and processing times have worsened in recent years.

**Use available resources to increase adjudicatory capacity,** especially since SAAs are deciding fewer cases.

**Develop management information to identify hearing office outliers.** Resources can then be directed to the hearing offices operating below Agency standards.

**Continue focusing on the quality of ALJ decisions.** This focus and related training on identified weaknesses will enhance the overall hearings process.

### KEY RELATED LINKS

- Office of the Inspector General (OIG) Report - [Analysis of Hearing Offices Using Key Risk Factors](#) (A-12-13-13044), December 20, 2013.
- OIG Report – [Effects of the Senior Attorney Adjudicator Program on Hearing Workloads](#) (A-12-13-23002), June 28, 2013.
- OIG Report - [Subsequent Appellate Actions Taken on Denials Issued by Low-Allowance ALJs](#) (A-12-13-13084), July 3, 2014.

## IMPROVE THE TIMELINESS AND QUALITY OF THE DISABILITY PROCESS

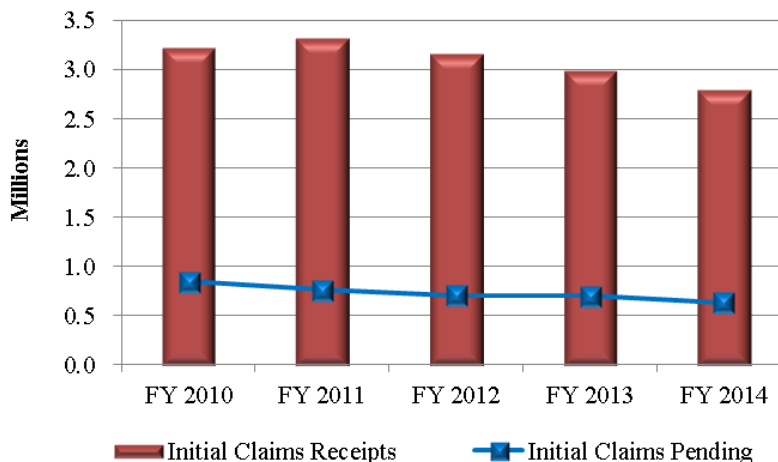
### CHALLENGE

**SSA needs to address receipt of millions of initial disability and reconsideration claims and backlogs of initial disability claims and continuing disability reviews (CDR), while also protecting its disability programs from fraud.**

#### DISABILITY CLAIMS BACKLOG

SSA completed almost 3 million initial and 784,000 reconsideration disability claims in FY 2013 and over 2.8 million initial and 757,000 reconsideration claims in FY 2014. While initial claims receipts have declined in recent years, SSA had a large number of initial claims pending completion. As of the end of FY 2014, SSA had over 632,000 initial disability claims pending. In addition, SSA expects to have approximately 656,000 initial disability claims pending at the end of FY 2015.

**Figure 3: Initial Claims Receipts and Pending**

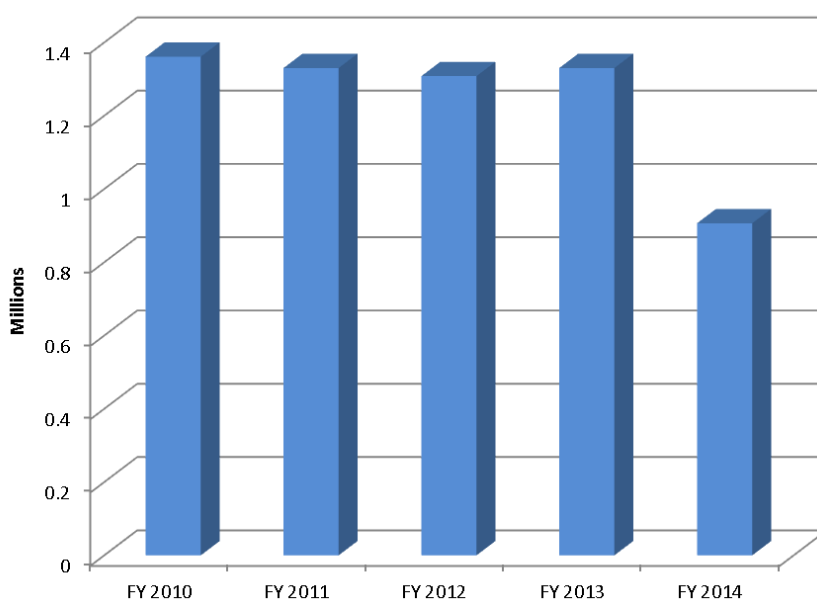


#### CDR BACKLOG

In our August 2014 report on *The Social Security Administration's Completion of Program Integrity Workloads*, we stated that SSA had a backlog of 1.3 million full medical CDRs at the end of FY 2013. SSA had a backlog because it had not completed all full medical CDRs when they became due. While SSA increased the number of full medical CDRs completed in recent years, it was still lower than needed to eliminate the backlog. As a result, SSA missed opportunities for potential savings. For example, if, during FY 2014, SSA conducted full medical CDRs at historic levels, we estimated it would identify more than \$4.6 billion in additional Federal benefit savings.

SSA received authority to hire approximately 2,600 DDS employees in FY 2014—including replacement hiring and some additional hires. SSA expects these new hires to enable the Agency to process additional CDRs in FY 2015.

**Figure 4: Full Medical CDR Backlog**



## DISABILITY FRAUD

Recent high-profile fraud schemes uncovered in New York, Puerto Rico, and West Virginia highlighted the vulnerability of SSA's disability programs to fraud. In New York, criminal facilitators conspired with disability applicants to feign disabilities and submit disability applications with fabricated and/or exaggerated ailments, which led to many individuals receiving disability benefits for which they were not eligible. Similarly, in Puerto Rico, dishonest third-party facilitators conspired with claimants submitting medical documentation that fabricated or exaggerated disabilities. In West Virginia, it was alleged that an ALJ in Huntington, West Virginia, conspired with an attorney to grant favorable decisions to disability claimants who were potentially ineligible for benefits.

The fraud schemes revealed that numerous individuals, with the assistance of the same attorney, claimant representative, or other facilitator, could apply for disability benefits, allege similar physical and/or mental impairments, provide similar fabricated or exaggerated medical documentation certified by a common physician or medical facility, and receive disability benefits. These cases highlighted SSA's lack of the information technology (IT) infrastructure and front-end analytical tools necessary to screen applications for "potential fraud warnings" and then to review or investigate further before approving; for example, flagging a string of disability claims from applicants in the same geographic area with a common claimant representative and similar alleged disabilities. Watchful SSA and DDS employees ultimately caught the patterns present in the fraudulent claims in New York and Puerto Rico, but not before the Agency approved those claims and made millions of dollars of payments to the beneficiaries.

## AGENCY ACTIONS

### SSA'S STRATEGY

In November 2010, SSA released its *Strategy to Address Increasing Initial Disability Claim Receipts* to reduce the initial claims backlog to a pre-recession level of 525,000 by FY 2014. The multi-year Strategy included

- increasing staffing in the DDS and Federal disability processing components;
- improving efficiency through automation;
- expanding the use of screening tools to assist in identifying claims likely to be allowed; and
- refining policies and business processes to expedite case completion.

However, in our April 2014 report on SSA's *Progress in Reducing the Initial Disability Claims Backlog*, we found SSA no longer expected to achieve its pending level goal of 525,000, and it had not established a new goal. If the anticipated funding and productivity remain unchanged, we estimate that the pending level would remain lower than the FY 2013 level through FY 2016. However, the pending level will not be reduced to 525,000 claims.

### DISABILITY CASE PROCESSING SYSTEM

The Agency is developing a Disability Case Processing System (DCPS), which is 1 system that will replace the existing 54 systems that support the DDSs. DCPS will integrate case analysis tools and health information technology. A common case processing system will help SSA timely distribute policy changes. Per SSA, it will provide consistent case processing abilities between the DDSs, which should have a positive effect on processing times and the consistency of disability decisions.

SSA began testing the initial version of DCPS in September 2012 and expected to implement DCPS nationwide by FY 2016. However, schedule delays have pushed full implementation to FY 2018. In addition, a management consulting firm hired by SSA found several weaknesses with the implementation of DCPS. We will continue evaluating SSA's plans to complete the DCPS project.

### FRAUD PREVENTION AND COOPERATIVE DISABILITY INVESTIGATIONS

This year, SSA began an initiative to develop predictive analytics to detect disability fraud. This project entailed two phases. Phase I was a 90-day "proof of concept" phase, completed in May 2014, which used data analytics to prove known fraud using disability claims data from the New York, Puerto Rico, and West Virginia fraud schemes. Phase II, a 180-day phase to use predictive analytics to uncover unknown fraud using similar criteria deployed in Phase I, is ongoing. In addition, SSA is considering building a fraud risk-scoring model as well as determining the feasibility of establishing a joint anti-fraud organizational model composed of several SSA components. SSA is working with three vendors on the use of the predictive analytics tool and another vendor regarding a joint anti-fraud unit.

SSA also established Fraud Prevention Units (FPU) in New York, Kansas City, and San Francisco. The offices comprise dedicated disability examiners assigned to regional Disability Processing Branches. The FPUs' purpose is to review and identify suspicious disability claims as well as handle related redeterminations.

The Cooperative Disability Investigations (CDI) program continues to be one of our most successful joint initiatives, combining the efforts of the OIG, SSA, DDSs, and State or local law enforcement personnel. The CDI program has 27 units in 23 States and 1 U.S. territory. The units work to obtain sufficient evidence to identify and resolve questions of fraud and abuse related to disability claims. Since the program's inception in FY 1997, its efforts have resulted in \$2.8 billion in projected savings to the Disability Insurance and Supplemental Security Income (SSI) programs as well as \$1.9 billion in projected savings to non-SSA programs. SSA and the OIG plan to open 5 new CDI units by the end of FY 2016, bringing the number of CDI units to 32.

## WHAT THE AGENCY NEEDS TO DO

**Continue to focus on reducing the CDR backlog.** While the Agency made some progress in lowering the backlog in FY 2014, it still needs to use its available resources and technology to increase its capacity to ensure it completes full medical CDRs when they become due.

**Revisit its strategy to address the initial disability claims backlog.** SSA needs to develop meaningful performance measures to ensure progress in reducing initial claims pending.

**Ensure DCPS is back on track to modernize the technology infrastructure that supports disability case processing nationwide.** SSA needs to address the weaknesses identified and recommendations made by the management consulting firm.

**SSA needs to develop the tools and systems needed to properly store and analyze disability applications and claims to ensure payment integrity and protect the disability programs against fraud.**

### KEY RELATED LINKS

- OIG Report - [SSA's Completion of Program Integrity Workloads](#) (A-07-14-24071), August 18, 2014.
- OIG Report - [SSA's Progress in Reducing the Initial Disability Claims Backlog](#) (A-07-13-13073), April 28, 2014.
- SSA's [Strategy to Address Increasing Initial Disability Claim Receipts](#), November 2010.
- OIG Report - [Full Medical Continuing Disability Reviews](#) (A-07-09-29147), March 30, 2010.
- OIG Report - [Termination of Disability Benefits Following a Continuing Disability Review Cessation Determination](#) (A-07-12-11211), November 1, 2012.
- IG Testimony - [Examining Ways the Social Security Administration Can Improve the Disability Review Process](#), April 9, 2014.
- OIG Report - [The Social Security Administration's Ability to Prevent and Detect Disability Fraud](#), September 2014.

## REDUCE IMPROPER PAYMENTS AND INCREASE OVERPAYMENT RECOVERIES

### CHALLENGE

**SSA is responsible for issuing over \$800 billion in benefit payments, annually, to about 60 million people. Given the amount of overall dollars involved in SSA's payments, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.**

SSA is one of the Federal agencies with a high amount of improper payments. In FY 2013, the last FY for which data were available, SSA reported about \$8.1 billion in over- or underpayments, and the Agency incurred an administrative cost of \$0.07 for every overpayment dollar it collected. Further, SSA needs to adhere to the requirements in Executive Order 3520 *Reducing Improper Payments*, the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) (Pub. L. No. 111-204), and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) (Publ. L. No. 112-248). SSA needs to take additional actions to reduce improper payments.

### IMPROPER PAYMENT RATES

Workers, employers, and taxpayers who fund SSA's programs deserve to have their tax dollars effectively managed. As a result, SSA must be a responsible steward of the funds entrusted to its care and minimize the risk of making improper payments. SSA strives to balance its service commitments to the public with its stewardship responsibilities. However, given the size and complexity of the programs the Agency administers, some payment errors will occur.

For example, according to SSA, in FY 2013,

- the Old-Age, Survivors and Disability Insurance (OASDI) overpayment error was \$1.9 billion or 0.2 percent of program outlays, and the underpayment error was \$1.1 billion or 0.1 percent of program outlays; and
- the SSI overpayment error was \$4.2 billion or 7.6 percent of program outlays, and the underpayment error was \$918 million or 1.7 percent of program outlays.

For FYs 2013 through 2015, SSA's goal was to maintain OASDI payment accuracy at 99.8 percent for both over- and underpayments; and for SSI, the Agency's goal was to achieve over- and underpayment accuracy rates of 95 and 98.8 percent, respectively.

The Agency has not met its payment accuracy goals often in the last few years (see **Table 2**).

**Table 2: Overpayment Accuracy Rates and Goals FYs 2009 Through 2013**

FY	2009		2010		2011		2012		2013	
Program	SSI	OASDI	SSI	OASDI	SSI	OASDI	SSI	OASDI	SSI	OASDI
Rate	91.60	99.63	93.35	99.61	92.66	99.68	93.66	99.78	92.43	99.78
Target	96.00	99.80	91.60	99.80	93.30	99.80	95.00	99.80	95.00	99.80
Met	No	No	Yes	No	No	No	No	No	No	No



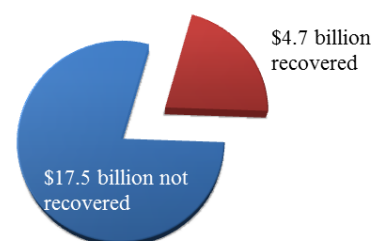
## EXECUTIVE ORDER 13520, IPERA, AND IPERIA

In November 2009, the President issued Executive Order 13520 on reducing improper payments; and, in March 2010, the Office of Management and Budget issued guidance for implementing it. Also, in July 2010, IPERA was enacted. Furthermore, in January 2013, IPERIA was enacted, which refined steps agencies should take to address improper payments. As a result, all agencies with high-risk programs—those with significant improper payments—are required to intensify their efforts to eliminate payment errors. The Office of Management and Budget designated SSA's programs as high-risk.

## OVERPAYMENT RECOVERIES

Once SSA determines an individual has been overpaid, it attempts to recover the overpayment. According to SSA, in FY 2014, the Agency recovered \$4.7 billion in overpayments at an administrative cost of \$0.07 for every dollar collected and ended the FY with an uncollected overpayment balance of \$17.5 billion.

**Figure 5: Overpayments Recovered FY 2014**



## AGENCY ACTIONS

### IMPROPER PAYMENT CAUSES

The major causes of improper payments in the OASDI program include beneficiaries who fail to timely report earnings and when SSA does not timely withhold monthly benefit payments from beneficiaries who are engaging in substantial gainful activity. SSA developed a statistical model that predicts the likelihood of beneficiaries being at risk of receiving large earnings-related overpayments and implemented it nationwide in June 2013.

A major cause of improper payments in the SSI program is recipients' failure to provide accurate and timely reports of new or increased wages. In response, SSA developed a monthly wage reporting system incorporating touch-tone and voice-recognition telephone technology. SSA also implemented its Access to Financial Institutions project to reduce SSI payment errors by identifying undisclosed financial accounts with balances that placed recipients over the SSI resource limit.

### DEBT COLLECTION TOOLS

SSA uses a variety of methods to collect overpayment-related debt. Collection techniques include internal methods, such as benefit withholding and billing with follow up. In addition, SSA uses external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (Pub. L. No. 104-134) for OASDI debts and the *Foster Care Independence Act of 1999* (Pub. L. No. 106-169) for SSI debts. These debt collection tools include the Treasury Offset Program, credit bureau reporting, administrative wage garnishment, and Federal Salary Offset.

### CDRs

The CDR is a tool for reducing improper payments. Through completion of CDRs, SSA periodically verifies that individuals are still disabled and eligible for disability payments. Available data indicate that SSA saves about \$10 for every \$1 spent on CDRs, including Medicare and Medicaid program effects.

## WHAT THE AGENCY NEEDS TO DO

**Identify and prevent improper payments through automation and data analytics.** SSA needs to use the data it has and can obtain to better identify changes that affect beneficiaries and recipients' benefit payments. For example, we have recommended that SSA use its own data to identify anomalies that suggest a beneficiary may be ineligible.

**Collect data from reliable third-party sources that would aid SSA in mitigating discrepancies that can occur when SSI recipients self-report their personal financial situations.**

**Accurately calculate overpayments and reconcile data between systems to detect discrepancies, which could lead to payment errors.**

### KEY RELATED LINKS

- Executive Order 13520 – [Reducing Improper Payments and Eliminating Waste in Federal Programs](#), November 23, 2009.
- [Improper Payments Elimination and Recovery Act of 2010](#), July 22, 2010.
- [Improper Payments Elimination and Recovery Improvement Act of 2012](#), January 10, 2013.
- [Federal Payment Accuracy](#) website.
- OIG Report - [The Social Security Administration's Plan to Reduce Improper Payments Under Executive Order 13520, as Reported in March 2013](#) (A-15-13-13105), September 30, 2013.
- IG Testimony – [New Steps to Strengthen the Integrity of Federal Payments](#), May 8, 2013.
- OIG Report – [Using Bank Data to Identify Supplemental Security Income Recipients with Potential Overpayments](#) (A-01-12-11223), September 5, 2013.
- OIG Report - [The Social Security Administration's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2013 Agency Financial Report](#) (A-15-14-14074), April 14, 2014.
- OIG Report - [Supplemental Security Income Recipients with Excess Unstated Income](#) (A-07-12-11206), May 20, 2014.

## IMPROVE CUSTOMER SERVICE

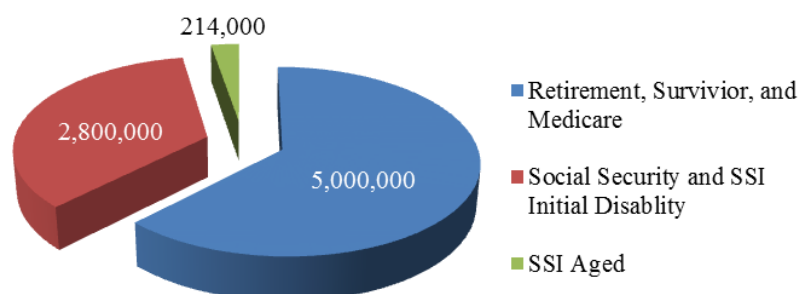
### CHALLENGE

**SSA faces several challenges, such as increasing workloads and representative payee oversight, as it pursues its mission to deliver services that meet the public's changing needs.**

#### INCREASED WORKLOAD WITH REDUCED STAFF

The number of Americans age 55 and older will increase by more than 10 million between 2015 and 2020, further increasing the demand for SSA services. In FY 2014, SSA completed approximately 5 million retirement, survivor, and Medicare claims; over 2.8 million Social Security and SSI disability claims; and nearly 214,000 SSI aged claims.

**Figure 5: FY 2014 Claims**

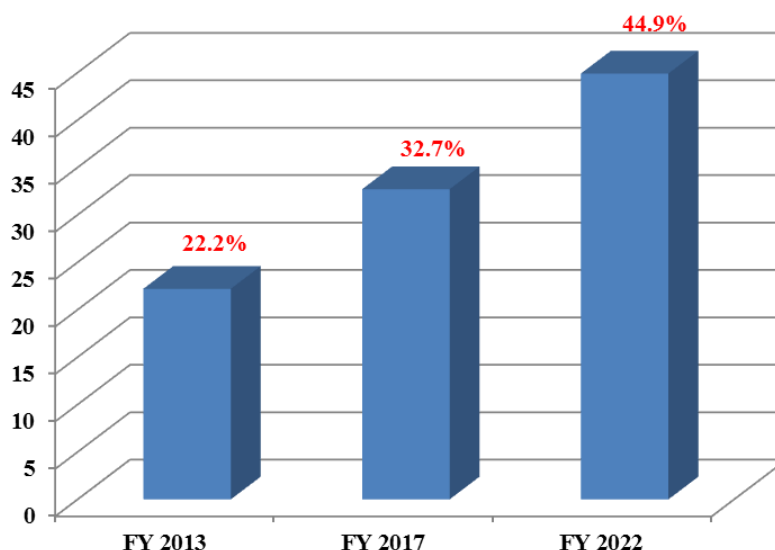


In addition, in FY 2014, SSA reported it

- completed 757,000 reconsiderations, 614,000 hearings, and 162,000 Appeals Council reviews;
- conducted 2.6 million SSI redeterminations and 1.7 million periodic medical CDRs;
- completed requests for 16 million new and replacement Social Security cards; and
- posted 253 million earnings items to workers' records.

One of SSA's greatest challenges is the loss of its most experienced employees. From FYs 2011 to 2013, nearly 11,000 SSA employees found other employment or retired. As a result, in FY 2014, the public waited longer for decisions on disability claims, to schedule an appointment in a field office, and to talk to a representative on the National 800-number. Busy signals nearly tripled from 5 percent in FY 2012 to 14 percent in FY 2014, and the average time to answer a call increased from about 5 minutes in FY 2012 to over 22 minutes in FY 2014.

SSA's projected retirement of its employees continues to challenge its customer service capability. SSA estimates that about 45 percent of its employees, including 54 percent of its supervisors, will be eligible to retire by FY 2022.

**Figure 6: Retirement Eligibility**

In a May 2013 report, the Government Accountability Office (GAO) noted SSA's human capital planning and analysis was not aligned with its long-term goals and objectives. SSA recognizes that it must recruit and retain a multi-generational, multi-cultural workforce with the competencies needed to achieve its mission and goals.

### CHANGING CUSTOMER EXPECTATIONS

Technology is transforming how SSA conducts business with the public. Computer technology, high-speed networks, and mobile innovation provide new opportunities for service delivery. The public also expects responsive service from multiple service delivery channels. At the same time, the nation is becoming more diverse. For example, the Census Bureau projects the U.S. Hispanic population will nearly triple, from 46.7 to 132.8 million, between 2008 and 2050. As SSA enhances its service delivery strategies, it must consider the increasing multi-lingual, multi-cultural population it serves.

### REPRESENTATIVE PAYMENT PROGRAM

SSA appoints representative payees to manage the benefits of incapable beneficiaries and recipients because of their age or mental or physical impairment. In January 2014, SSA reported that approximately 5.9 million representative payees managed about \$74 billion in payments for 8.6 million beneficiaries and recipients. Our audits continue finding problems with representative payees who improperly use and account for beneficiaries' payments. Also, in a recent OIG review, we determined SSA paid \$265 million in benefits to someone other than the selected representative payees for 11,749 beneficiaries. Further, GAO noted SSA struggled to effectively administer its Representative Payment Program. The projected growth in the aged population, as well as the incidence of individuals with dementia, will require that SSA spend more resources recruiting and monitoring representative payees.

### AGENCY ACTIONS

SSA implemented the following initiatives to improve customer service: pursuing a long-term vision and strategic plan, expanding the use of online services, improving telephone services, expanding video services, and improving the Representative Payment Program.

## LONG-TERM VISION AND STRATEGIC PLAN

Recently, the National Academy of Public Administration (NAPA) conducted a study to address the continuing service delivery challenges SSA faces. In July 2014, NAPA published its report—*Anticipating the Future: Developing a Vision and Strategic Plan for the Social Security Administration for 2025-2030*. SSA plans to use this report, along with input from its stakeholders, to develop a plan—*Vision 2025*—which SSA expects to release in FY 2015.

## ONLINE SERVICES

One of SSA's priorities is to provide the public with more service options through a wide range of online services. In FY 2014, SSA began development of the Internet Social Security Number (SSN) Replacement Card, which will allow the public to apply for a replacement SSN card over the Internet. Through the Agency's *my Social Security* online portal, individuals can obtain their Social Security statements and benefit verification letters, start or change their direct deposit payment, and change their address. *My Social Security* has about 2 million visits per month. In FY 2014, SSA reported it plans to expand *my Social Security* to include online notice delivery. Further, SSA plans to expand its online services to the SSI population and representative payees. Finally, SSA is collaborating with other government agencies and organizations to install SSA Express—self-service computer stations offering access to SSA's online services directly linked to SSA representatives—at their respective facilities.

## TELEPHONE SERVICES

SSA handles over 50 million telephone transactions per year. SSA is replacing its National 800-number infrastructure with a new system that will help eliminate lengthy navigation menus, better forecast call volumes, anticipate staffing needs, and efficiently distribute calls. It will also enhance the automated telephone applications' self-service features and speech recognition technology.

## VIDEO SERVICES

SSA is expanding its video services for individuals who live in rural areas or places that do not have public transportation. Video services enable SSA to provide service to people at hospitals, libraries, community centers, American Indian Tribal centers, and homeless shelters. Video services also reduce travel costs and lost work hours. In FY 2014, SSA reported it had video units in over 2,000 sites and conducted over 156,000 transactions and held over 171,000 hearings by video. Additionally, in FY 2014, SSA conducted approximately 5,000 video remote interpreting services to hearing-impaired visitors.

## REPRESENTATIVE PAYMENT PROGRAM

SSA is developing a long-term strategic approach to improve its Representative Payment Program. Current efforts include using a predictive model that identifies cases with a higher probability of potential misuse. Further, in February 2014, SSA implemented its representative payee criminal bar policy, which prevents individuals convicted of committing certain crimes from serving as a representative payee.

### WHAT THE AGENCY NEEDS TO DO

**Develop and implement a clear vision on how it plans to provide service, given the current and anticipated workload increases and staff reductions.**

**Continue strengthening its controls for selecting and monitoring representative payees.**

## KEY RELATED LINKS

- NAPA Report – [Anticipating the Future: Developing a Vision and Strategic Plan for the Social Security Administration for 2025-2030](#), July 2014.
- OIG Report – [Representative Payee Selections Pending in the Representative Payee System](#) (A-09-12-11252), February 2014.
- GAO Report – [SSA Representative Payee Program: Addressing Long-Term Challenges Requires a More Strategic Approach](#) (GAO-13-473), June 5, 2013.
- GAO Report – [Information Technology: SSA Needs to Address Limitations in Management Controls and Human Capital Planning to Support Modernization Efforts](#) (GAO-14-308), May 2014.
- SSA’s [Agency Strategic Plan Fiscal Years 2014-2018](#).
- SSA’s [Annual Performance Plan for Fiscal Year 2015, Revised Performance Plan for Fiscal Year 2014, and Annual Performance Report for FY 2013](#).
- SSA’s [Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews, Fiscal Year 2013](#), January 30, 2014.

## INVEST IN INFORMATION TECHNOLOGY INFRASTRUCTURE TO SUPPORT CURRENT AND FUTURE WORKLOADS

### CHALLENGE

**SSA faces major challenges to ensure it has sufficient IT controls, provides secure electronic services to meet its customers' growing needs, strategically plans to modernize its systems for future service delivery, and efficiently implements major IT initiatives.**

SSA faces the challenge of how best to use technology to meet its increasing workloads with limited budgetary and human resources. Further, SSA will not be able to manage its current and future workloads without the proper IT infrastructure. The Agency uses a variety of technologies to deliver service to its customers, including telephone, the Internet, and videoconferencing. We have concerns regarding the Agency's IT physical infrastructure, development and implementation of secure electronic services, logical access controls and security of information systems, and management of major IT projects.

### IT PHYSICAL INFRASTRUCTURE

SSA's National Computer Center (NCC), built in 1979, houses the infrastructure that supports the Social Security programs provided to the public and other services provided to Federal, State, international, and private agencies. Increased workloads and growing telecommunication services have strained the NCC's ability to support the Agency's business. SSA's primary IT investment over recent years has been replacing the NCC. The Agency has projected that its new facility will not be fully operational until 2016.

### DEVELOPMENT AND IMPLEMENTATION OF SECURE ELECTRONIC SERVICES

SSA must provide additional electronic services to meet its customers' growing needs. In FY 2014, the public completed 70 million transactions online. The Agency's FY 2014 goal was to have 50.9 million transactions completed online.

While expanding its inventory of electronic services, the Agency needs to ensure its existing and future electronic services are secure. In January 2013, SSA expanded its *my Social Security* online portal to include direct deposit changes, change of address, and benefit verification. However, fraudulent accounts were established to redirect Social Security benefits to unauthorized bank accounts. From February 1, 2013 through FY 2014, we received nearly 40,000 fraud allegations related to *my Social Security* accounts from SSA and other sources.

### LOGICAL ACCESS CONTROLS AND SECURITY OF SENSITIVE INFORMATION

SSA's FY 2009, 2010, and 2011 Financial Statement Audits identified a significant deficiency in the Agency's controls over access to its sensitive information. For example, SSA did not consistently comply with policies and procedures to periodically reassess the systems access given to its employees and contractors. Moreover, some employees and contractors had greater access to systems than they needed to perform their jobs. Additionally, certain configurations increased the risk of unauthorized access to key financial data and programs. The FY 2012 Financial Statement Audit identified additional concerns and raised the significant deficiency to a material weakness.



The FY 2013 and 2014 Financial Statement Audits continued identifying control issues in both the design and operation of key controls. In these audits, the independent auditor identified several deficiencies that, when aggregated, were considered to be a significant deficiency with regard to SSA's information systems controls.

We also found security weaknesses in SSA's systems. In our October 2013 report on *SSA's Process to Identify and Monitor the Security of Hardware Devices Connected to its Network*, we found the Agency's inventory of hardware devices was incomplete and inaccurate and included devices that were not approved to be on the network. In addition, in our 2014 report on *Mobile Device Security*, we found that SSA's security of mobile devices did not always conform with Federal standards and business best practices to mitigate unauthorized access to Agency sensitive information.

## IMPLEMENTATION OF MAJOR IT PROJECTS

SSA faces challenges in executing and implementing major IT projects and delivering expected functionalities on-schedule and within budget.

SSA has partnered with State DDSs to evaluate disability claims and make disability determinations. Each of the 54 DDSs uses a customized legacy system to process disability claims and other non-SSA workloads. Supporting and maintaining these systems requires significant resources. In 2009, SSA started the DCPS project to simplify DDS system support and maintenance by transitioning to a modern, common case processing system. At that time, SSA estimated the project to cost \$381 million.

In March 2014, SSA contracted with an external firm to conduct an independent analysis of the DCPS project. The firm found that SSA invested \$288 million in DCPS over 6 years, but the project delivered limited functionality and faced schedule delays as well as increasing stakeholder concerns. The report stated that SSA leadership had decided to "reset" the program to increase the likelihood of successful delivery. In June 2014, SSA updated the estimated project costs to \$752 million.

In July 2014, the Chairman of the House Subcommittee on Social Security, Committee on Ways and Means, requested that we investigate DCPS. On September 5, 2014, we issued an interim report that addressed some questions related to the independent evaluation and DCPS project roles and responsibilities. In addition, we initiated a review to evaluate SSA's plans to complete the DCPS project. In our report, we will determine whether, going forward, SSA has established (1) reasonable milestones and deliverable dates; (2) a process to monitor progress, identify issues, and take corrective action; and (3) plans to keep key stakeholders—including Congressional oversight committees and the Inspector General—informed of the project's status. We plan to issue our report later in November 2014.

## AGENCY ACTIONS

### IT PHYSICAL INFRASTRUCTURE

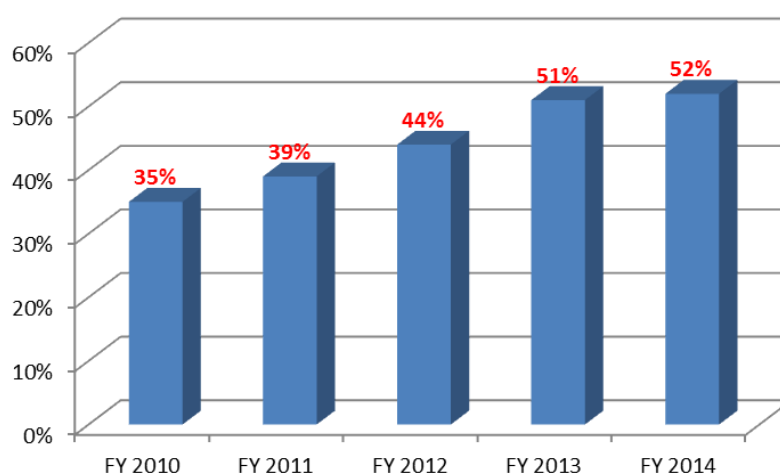
SSA has taken steps to address its IT infrastructure challenge and the NCC's sustainability through 2016. For example, SSA conducts regular tours of the facility with technical experts to identify needed repairs or future replacement projects.

In February 2009, SSA received \$500 million in *American Recovery and Reinvestment Act* (Pub. L. No. 111-5) funding to replace its NCC. In August 2011, the General Services Administration purchased a site for SSA's new data center. In January 2012, the General Services Administration and SSA awarded a contract for the design and construction of a new data center. The physical structure of the Agency's new data center, the National Support Center, was substantially completed by September 2014 and, according to SSA, ahead of schedule and under budget. However, the Agency still needs to transition all IT operations from the existing NCC to the new National Support Center in FYs 2015 and 2016.

## DEVELOPMENT AND IMPLEMENTATION OF SECURE ELECTRONIC SERVICES

SSA offers over 30 electronic services to the public, businesses, and other government agencies. Further, SSA has researched Internet authentication solutions to secure online initiatives, such as Ready Retirement, replacement SSN cards, and other automated services. In FY 2014, individuals filed over 70 million transactions online, exceeding the Agency's FY 2014 goal of 50.9 million transactions. The Agency's FY 2015 goal is to conduct 55.8 million transactions online.

**Figure 7: Percent of Claims Filed Online**



In FY 2014, SSA implemented fraud prevention enhancements to secure *my* Social Security transactions, including applications for benefits and changes of address and direct deposit. Additionally in 2014, SSA increased its promotional activities for the *my* Social Security portal. The Agency held a National *my* Social Security Week campaign and various other activities, such as sign-up events, special radio and social media advertisements, press events, and local office activities encouraging the public to use its online services.

## LOGICAL ACCESS CONTROLS AND SECURITY OF SENSITIVE INFORMATION

SSA developed the Profile Quality Program, a group of projects to limit access to the Agency's electronic resources, including sensitive data. As part of this Program, SSA implemented several procedures related to logical access controls and the security of sensitive information. Moreover, SSA implemented Web-based tools for automating SSA's process for reviewing access to sensitive information.

Finally, SSA developed teams to address the other significant deficiencies in information security. In FY 2014, SSA implemented additional policies and procedures and conducted security tests. This included, but was not limited to, policies and procedures over software change control, configuration management, authorization of hardware and software, and penetration testing.

## IMPLEMENTATION OF MAJOR IT PROJECTS

SSA started implementing the recommendations of the firm that conducted the independent analysis of the DCPS project. Specifically, the Agency appointed a Chief Program Officer as the single accountable executive for DCPS and established an integrated program team to clarify responsibilities and improve communications. In addition, SSA plans to re-align programming efforts to focus on problem resolution, increase user engagement, and perform a new cost-benefit analysis for the project.

### WHAT THE AGENCY NEEDS TO DO

**Address the deficiencies identified by the independent auditor that, when aggregated, are considered to be a significant deficiency in the area of Information Systems Controls.**

**Ensure successful transition of its IT operations to the National Support Center and maintain responsive, reliable system performance.**

**Ensure the electronic services the Agency provides are secure.**

**Ensure its capital programming and investment control process is effective.**

### KEY RELATED LINKS

- **OIG Report – [The Social Security Administration’s Compliance with the Federal Information Security Management Act of 2002 for Fiscal Year 2013](#) (A-14-13-13086), November 2013.**
- **OIG Report - [The Social Security Administration’s Financial Report for Fiscal Year 2013](#) (A-15-13-13085), December 9, 2013.**
- **OIG Report - [SSA’s Process to Identify and Monitor the Security of Hardware Devices Connected to its Network](#) (A-14-13-13050), October 1, 2013.**
- **OIG Report – [Mobile Device Security](#) (A-14-14-14051), September 26, 2014.**

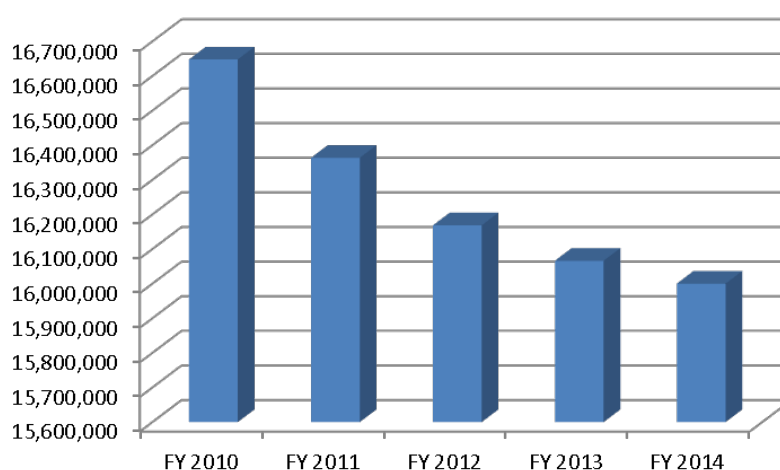
## STRENGTHEN THE INTEGRITY AND PROTECTION OF THE SOCIAL SECURITY NUMBER

### CHALLENGE

**Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits they are due.**

In FY 2014, SSA issued approximately 16 million original and replacement SSN cards. In addition, for Tax Year 2013, the Agency received and processed about 254 million wage items, totaling approximately \$5.9 trillion in earnings. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring SSN integrity and that eligible individuals receive the full benefits due them.

**Figure 8: Number of SSNs Issued**



### SSN Use

The SSN is heavily relied on as an identifier and is valuable as an illegal commodity. Accuracy in recording workers' earnings is critical because SSA calculates future benefit payments based on the earnings an individual accumulates over his/her lifetime. As such, properly assigning SSNs only to those individuals authorized to obtain them, protecting SSN information once the Agency assigns the numbers, and accurately posting the earnings reported under SSNs are critical SSA missions.

### SSN MISUSE

Given the frequency of SSN misuse and identity theft in U.S. society, we continue to believe protection of this critical number is a considerable challenge for SSA. Unfortunately, once SSA assigns an SSN, it has no authority to control the collection, use, and protection of the number by other public and private entities. The Inspector General has testified regarding ways of improving SSN protection and guard against misuse, identity theft, and tax fraud. The Federal Trade Commission has estimated that as many as 9 million Americans' identities are stolen each year.

Because the SSNs of deceased individuals are vulnerable to misuse, the public release of SSA's Death Master File (DMF) has raised concerns. More recently, the *Bipartisan Budget Act of 2013* restricted public access to the DMF. The public will have access only to a file containing deaths that occurred at least 3 calendar years before the request. To the extent possible, we believe SSA should limit public access to the DMF to only what is required by law and take all possible steps to ensure its accuracy.

### EARNINGS

SSA's programs depend on earnings information to determine whether an individual is eligible for benefits and to calculate the amount of benefit payments. Properly posting earnings ensures eligible individuals receive the full retirement, survivors, and/or disability benefits due them. If employers report earnings information incorrectly or not at all, SSA cannot ensure all individuals entitled to benefits are receiving the correct payment amounts.

SSA spends scarce resources correcting earnings data when employers report incorrect information. The Earnings Suspense File (ESF) is the Agency's repository of wage reports on which wage earners' names and SSNs fail to match SSA's records. Per the latest available data, the ESF had accumulated over \$1.2 trillion in wages and 333 million wage items for Tax Years 1937 through 2012. In Tax Year 2012 alone, SSA posted 6.9 million wage items, representing \$71 billion, to the ESF. From Tax Years 2003 to 2012, the ESF grew by approximately \$749 billion in wages and 89.7 million wage items, representing about 62 percent of the total wages and 26 percent of the total wage items.

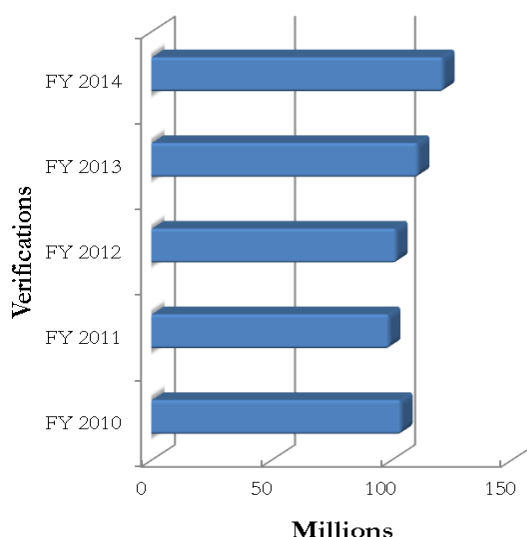
### AGENCY ACTIONS

SSA has taken steps to streamline its enumeration process. For example, SSA is developing an Internet-based Social Security Number Replacement Card application. This will allow SSA to reduce the number of replacement card requests in field offices and Social Security Card Centers. While we believe this initiative may enhance customer service, SSA must ensure it takes all necessary steps to minimize the risk of fraudulent SSN replacement card attainment.

In addition, SSA has strengthened its policy for processing requests for the SSN printout. For example, SSA no longer provides SSN printouts to the public except in certain disaster situations. If an individual needs proof of his/her SSN and does not have a Social Security card, he/she will need to request a replacement by completing the *Application for a Social Security Card* (Form SS-5) and providing the required documentation.

### SSN VERIFICATION SERVICE

SSA has taken steps to reduce the size and growth of the ESF. Since 2002, the Agency has offered employers the ability to verify the names and SSNs of their employees using the Agency's SSN Verification Service, which is an online verification program, before reporting wages to SSA. In FY 2014, approximately 36,700 registered employers submitted over 121.5 million verifications.

**Figure 9: SSN Verification Service**

## E-VERIFY

SSA also supports the Department of Homeland Security in administering the E-Verify program, which assists employers in verifying the employment eligibility of newly hired employees. According to the Department of Homeland Security, over 500,000 employers have enrolled to use E-Verify, and these employers submitted over 29 million queries in FY 2014.

## WHAT THE AGENCY NEEDS TO DO

**Continue to be vigilant in the protection of SSNs.** We remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States as well as the misuse of SSNs for identity theft purposes.

**Limit public access to the DMF to only what the law requires, and take steps to ensure its accuracy.** Because the SSNs of deceased individuals are also vulnerable to misuse, the public release of the DMF raises concerns.

**Ensure that any electronic applications related to SSN card issuance offered through my Social Security include an effective authentication process.**

**Improve wage reporting by informing employers about potential SSN misuse cases, identifying and resolving employer reporting problems, re-examining the validity and integrity checks used to prevent suspicious W-2s from being posted, adding a verification response code to its SSN Verification Service to alert employers when a child's SSN has been submitted, and encouraging greater use of the Agency's employee verification programs.** SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting.

## KEY RELATED LINKS

- OIG report – [Internet Social Security Number Replacement Card Project](#) (A-08-14-24096), July 24, 2014.
- OIG report - [Potential Misuse of Foster Children’s Social Security Numbers](#) (A-08-12-11253), September 25, 2013.
- OIG report - [Access Controls for the Social Security Number Verification Service](#) (A-03-12-11204), April 18, 2013.
- OIG report - [Noncitizens Issued Multiple Social Security Numbers](#) (A-06-10-20155), December 10, 2012.
- OIG report - [Monitoring Controls for the Consent Based Social Security Number Verification Program](#) (A-03-12-11201), October 25, 2012.
- Inspector General Testimony – [Hearing on Identity Theft and Tax Fraud](#), May 8, 2012.
- Inspector General Testimony – [Hearing on Social Security’s Death Records](#), February 2, 2012.
- OIG report – [Controls For Issuing Social Security Number Printouts](#) (A-04-11-11105), December 13, 2011.



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## STRENGTHEN PLANNING, TRANSPARENCY, AND ACCOUNTABILITY

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### CHALLENGE

Planning, transparency, and accountability are critical factors in effective management. Failure to plan properly to meet its mission and challenges will lessen the Agency's ability to provide its services efficiently and effectively now and in the future. Similarly, mismanagement and waste, as well as a lack of transparency for citizens in Government operations, can erode trust in SSA's ability to tackle the challenges it faces.

### PLANNING

The Agency has developed multiple year strategic plans in the past, which included general descriptions of the programs, processes, and resources needed to meet its mission and strategic objectives. SSA has also produced other strategic plans, like the Information Resources Management Strategic and Human Capital Operating Plans, which covered periods of only a few years. While planning for the next few years is important, SSA needs a longer-term vision to ensure it has the programs, processes, staff, and infrastructure required to provide needed services 10 to 20 years from now and beyond.

### TRANSPARENCY

While the Agency has many performance measures and goals on which it publicly reports, we have questioned the usefulness of some of the measures and goals in the past. We have recommended that SSA develop more outcome-based performance measures and goals, including performance targets based on SSA's long-term outcomes instead of annual budgets.

Also, SSA needs to be more forthright when planned projects face obstacles. For example, a contractor evaluated SSA's implementation of DCPS and found that the program had invested \$288 million over 6 years, delivered limited functionality, and faced schedule delays as well as increasing stakeholder concerns. A member of Congress charged that SSA failed to inform congressional staff about the contractor's work and the challenges the program faced.

### ACCOUNTABILITY

#### INDEPENDENT AUDITOR'S REPORT

The FY 2014 *Independent Auditor's Report* contained two significant deficiencies in internal control (the full text of the report can be found in SSA's FY 2014 *Agency Financial Report*). First, the auditor identified three deficiencies in internal control that, when aggregated, were considered to be a significant deficiency in internal controls related to calculation, recording, and prevention of overpayments. Specifically, the auditor noted calculation errors in 12 percent of the overpayment items selected in a statistical sample. Although the impact of these errors was not deemed material to the financial statements, they indicate further control weaknesses in the overpayment process. In addition, SSA has a systems limitation where overpayment installments extending past 2049 are not tracked and reported. Further, SSA was not reconciling data between systems to detect discrepancies, which could lead to payment errors.

Second, the auditor identified five deficiencies that, when aggregated, were considered to be a significant deficiency in the area of information systems controls. The deficiencies noted were in the following areas.

- Threat and Vulnerability Management
- IT Oversight and Governance
- Change Management
- Mainframe Security
- Access Controls.

### UNUSED FACILITIES AT SSA HEADQUARTERS

From March through October 2013, we identified empty workstations and workstations that SSA used to store such items as office supplies, boxes, obsolete computer equipment, and furniture. We also identified large areas of open space the Agency was not using. Additionally, we identified off-campus leased space that SSA was not fully occupying.

### AGENCY ACTIONS

SSA is using the July 2014 NAPA report, *Anticipating the Future: Developing a Vision and Strategic Plan for the Social Security Administration for 2025-2030*, and additional stakeholder input, to develop its *Vision 2025*. Per SSA, its *Vision 2025* will explain the type of Agency it needs to be to meet its customers' expectations in the next 10 years and beyond.

The Acting Commissioner has made addressing both of the significant deficiencies a priority. Specifically, SSA has changed how it monitors discrepancies or inaccuracies in benefit payments. Additionally, SSA hired a Deputy Chief Information Officer, a position that had been vacant at SSA. The new Deputy Chief Information Officer's role is the Agency's IT strategic planning, alignment of IT investments to the Agency's strategic goals and objectives, and management of technology spending and capital planning.

SSA has taken steps to reduce its real estate footprint, with plans to consolidate multiple components in single locations on its Headquarters campus to terminate existing leases for some outlying buildings.

### **WHAT THE AGENCY NEEDS TO DO**

**SSA needs to develop and effectively implement a long-range vision that allows it to meet its mission, workloads, and customer expectations now and in the future.** As part of this exercise, SSA should also develop performance measures and goals that address its long-term outcomes.

**The Agency needs to address its two internal control significant deficiencies.**

**SSA needs to explore opportunities to use vacant space in its Headquarters buildings to expedite the termination of outlying building leases.**

## KEY RELATED LINKS

- NAPA report – [Anticipating the Future: Developing a Vision and Strategic Plan for the Social Security Administration for 2025-2030](#), July 2014.
- [Letter from Congressman Sam Johnson to Acting Commissioner Carolyn Colvin on the Implementation of the Disability Case Processing System](#), July 25, 2014.
- OIG Report - [The Social Security Administration's Financial Report for Fiscal Year 2014](#) (A-15-14-14084), November 10, 2013.
- OIG Report – [Unused Facilities and Capacity at Social Security Administration Headquarters](#) (A-15-13-13103), March 28, 2014.

# OTHER REPORTING REQUIREMENTS

## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA Section 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

## ENTITLEMENT REVIEWS AND OFFICE OF THE INSPECTOR GENERAL ANTI-FRAUD ACTIVITIES

We are committed to improving financial management by preventing fraudulent and improper payments (see the *Improper Payments Information Detailed Report* for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law 103-296, requires us to report annually on the extent to which we reviewed cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) benefits; and the extent to which the cases we reviewed were those that involved a high likelihood or probability of fraud.

### ENTITLEMENT REVIEWS

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. We select cases and undertake reviews, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. We conduct the following major entitlement reviews:

#### DISABILITY QUALITY ASSURANCE REVIEWS

We perform quality assurance reviews of random samples of disability determination services (DDS) determinations to measure our level of accuracy against standards mandated by the regulations. We review initial claims, requests for reconsideration, and determinations of continuing eligibility, and conduct these reviews prior to the effectuation of the DDS determinations. The following table shows the quality assurance accuracy rates for fiscal year (FY) 2010 through FY 2014.

Quality Assurance Reviews					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>Percent of State DDS decisions to allow or continue not returned to the DDSs for correction</b>	98.6%	98.4%	98.5%	98.1%	98.1%
<b>Number of cases reviewed</b>	32,451	32,807	32,262	31,672	29,780
<b>Number of cases returned to the DDSs due to error or inadequate documentation</b>	445	524	476	608	577

## DI PREEFFECTUATION REVIEWS

We also perform preeffectuation reviews of favorable DI and concurrent DI/SSI initial and reconsideration determinations using a profiling system to select cases for review. This profiling system helps ensure the cost-effectiveness of preeffectuation reviews, and it satisfies the legislative requirement that the cases we review are those that are most likely to be incorrect. We also review a sufficient number of continuing disability review (CDR) continuance determinations to ensure a high level of accuracy in those cases. The following table shows the DI preeffectuation accuracy rates for FY 2010 through FY 2014.

DI Preeffectuation Reviews					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Percent of State DDS decisions to allow or continue not returned to the DDSs for correction	97.8%	97.4%	97.4%	97.1%	96.9%
Number of cases reviewed	378,712	390,480	362,250	333,159	316,306
Number of cases returned to the DDSs due to error or inadequate documentation	8,506	10,246	9,414	9,619	9,689

## SSI PREEFFECTUATION REVIEWS

Following legislation enacted in February 2006, we began preeffectuation reviews of favorable SSI initial and reconsideration adult determinations. As in DI cases, we also use a profiling system to select cases for review. The following table shows the SSI preeffectuation accuracy rates for FY 2010 through FY 2014.

SSI Preeffectuation Reviews					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Percent of State DDS decisions to allow not returned to the DDSs for correction	98.4%	97.9%	97.9%	97.7%	97.6%
Number of cases reviewed	124,045	124,401	116,681	109,645	105,628
Number of cases returned to the DDSs due to error or inadequate documentation	2,023	2,612	2,430	2,530	2,562

## CONTINUING DISABILITY REVIEWS

Periodic CDRs are a key activity in ensuring the integrity of the disability program. Through CDRs, we determine whether beneficiaries continue to be entitled to benefits because of their medical conditions. We also conduct a quality review of those decisions. The following table shows the CDR accuracy rates for FY 2010 through FY 2014.

CDR Accuracy					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Overall accuracy	97.8%	97.7%	97.9%	97.2%	97.6%
Continuance accuracy	98.4%	98.3%	98.6%	98.0%	98.3%
Cessation accuracy	96.0%	96.0%	95.8%	95.1%	95.5%

## OASDI AND SSI QUALITY ASSURANCE REVIEWS

Quality assurance reviews assess the accuracy of benefit payments. The following tables show the OASDI and SSI accuracy rates for FY 2010 through FY 2013. Data for FY 2014 is not available at this time. We will report the FY 2014 data in our *FY 2015 Agency Financial Report*.

OASDI Accuracy					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Overpayment accuracy	99.6%	99.7%	99.8%	99.8%	Data not yet available
Underpayment accuracy	99.8%	99.9%	99.9%	99.9%	Data not yet available

SSI Accuracy					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Overpayment accuracy	93.3%	92.7%	93.7%	92.4%	Data not yet available
Underpayment accuracy	97.6%	98.2%	98.2%	98.3%	Data not yet available

## SSI REDETERMINATIONS

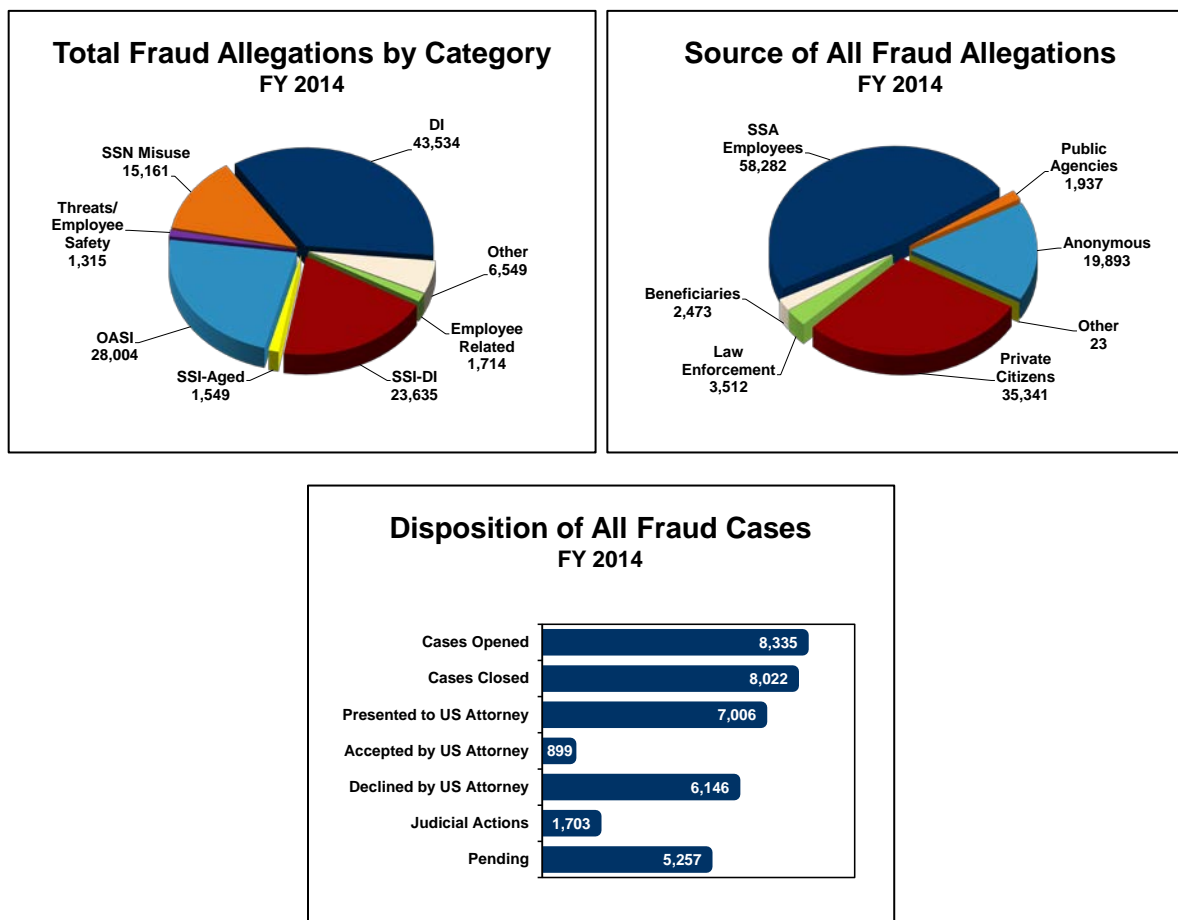
Once individuals become entitled to Social Security or SSI disability benefits, any changes in their circumstances may affect the amount or continuation of their benefits; therefore, we must reflect those changes in our records. SSI redeterminations are periodic reviews of non-medical factors to ensure that a recipient is still eligible for SSI payments and that we have paid and will continue to pay the recipient the correct amount. The following table shows the number of SSI redeterminations we completed for FY 2010 through FY 2014.

SSI Redeterminations (in millions)					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Number of redeterminations completed	2.466	2.457	2.624	2.634	2.628



## THE OFFICE OF THE INSPECTOR GENERAL'S ANTI-FRAUD ACTIVITIES

In FY 2014, we worked with our Office of the Inspector General (OIG), the Department of Justice, and other Government agencies on cases involving fraud, waste, and abuse as part of our fraud detection and prevention program for safeguarding the agency's assets. The following charts provide information from our OIG concerning fraud.



## BIENNIAL REVIEW OF USER FEE CHARGES

### SUMMARY OF FEES

In FY 2013 and FY 2014, we earned \$391 million and \$389 million in user fees, respectively. This revenue accounted for less than 1 percent of our total financing sources. We derive over 78 percent of user fee revenues from agreements with 22 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2014, we charged a fee of \$11.32 per payment for the cost of administering State supplemental SSI payments. This fee will increase to \$11.55 for FY 2015. We adjust the user fee annually based on the Consumer Price Index, unless the Commissioner of Social Security determines a different rate is appropriate for the States. We charge full cost for other reimbursable activity, such as earnings record requests from pension funds and individuals.

## BIENNIAL REVIEW

The *Chief Financial Officers Act of 1990* requires biennial reviews by Federal agencies of agency fees and other charges imposed for services rendered to individuals as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. Based on our FY 2014 review, we identified updates to the uniform standard fee structure for non-programmatic workloads previously implemented in FY 2012. We are planning to perform another review of these fees during FY 2016.

## FREEZE THE FOOTPRINT

In June 2010, the President issued Executive Order 13327, *Disposing of Unneeded Federal Real Estate – Increasing Sales Proceeds, Cutting Operating Costs, and Improving Energy Efficiency*. As a result, the Office of Management and Budget (OMB) issued a government-wide mandate that no Federal agency may increase total square footage or operating costs associated with offices. Called Freeze the Footprint, this initiative established a baseline using each agency's current total square footage as of FY 2012.

In accordance with Freeze the Footprint guidelines, we developed and implemented a *Real Property Cost Savings and Innovation Plan* to guide the agency in our efforts to comply with OMB's requirements. The agency monitors the continuing implementation of the plan and submits to OMB an Annual Agency Evaluation describing the overall approach in managing our real property footprint. The information below reflects the overall change in the agency's real property footprint from the FY 2012 baseline, as well as strategies we are pursuing to comply with the mandate.

The agency does not own or directly lease any buildings in its inventory. Per Federal Management Regulation, Subchapter C, the General Services Administration (GSA) acts as the landlord for the Federal civilian government, and is charged with promulgating regulations governing the acquisition, use, and disposal of real property. We work closely with GSA to manage our portfolio given changing workloads and the best business case for the agency.

Square Footage					
	FY 2012 Baseline	FY 2013	Change from Baseline	FY 2014*	Change from Baseline
Usable square footage	26,367,253	26,031,626	-335,627 or 1.3%	25,173,185	-1,194,068 or 4.5%

\* Estimated, as the final usable square footage is not available from GSA until the second quarter of FY 2015.

Operation and Maintenance Cost – Owned and Direct Lease Buildings					
	FY 2012 Reported Cost	FY 2013	Change	FY 2014	Change
Operation and maintenance cost	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

We are pursuing the following strategies to comply with OMB's Freeze the Footprint policy:

- Analyzing rent trend projections while evaluating market gap opportunities to identify locations where it makes sense to renegotiate lower rent rates with lessors;
- Optimizing space use by identifying and improving the overall use rate in new projects;
- Reviewing field and hearing office Federal building occupancies to determine if the current space meets our agency's business and mission needs based on current space standards and staffing levels; and

- Vacating 4 headquarters leased buildings in FY 2015 and FY 2016 to reduce our portfolio by approximately 260,000 usable square feet.

## DEBT MANAGEMENT

The following two tables provide information on our debt management activities. We calculated the data shown in the tables by using accounts receivable amounts taken directly from the financial statements. We provide definitions of certain line items immediately following the Debt Management Activities Programmatic and Administrative Activity table. For more information on our agency's effort to curb overpayments, please refer to the *Improper Payments Information Detailed Report* immediately following this section.

We identified a system limitation in the processing of certain overpayments. In July 2011, the Government Accountability Office (GAO) issued an audit report on the DI program entitled, "*Disability Insurance: SSA Can Improve Efforts to Detect, Prevent, and Recover Overpayments.*" In that audit, GAO identified an OASDI system limitation concerning long-term withholding agreements that extend past the year 2049. When we detect overpayments, we often find that disabled beneficiaries lack the means to repay us immediately. In many of these cases, we establish long-term repayment plans and withhold a portion of individuals' monthly benefits. We often withhold minimal amounts to avoid imposing undue hardships, and some repayment plans extend beyond 2049. We do so recognizing that a portion of this debt will prove uncollectible because some plans exceed beneficiaries' expected lifetimes. We estimate that approximately 55,000 debts are affected by payment plans extending beyond the year 2049. We estimate the total gross value of the post year 2049 receivable amounts is approximately \$646 million. This amount is not material to the consolidated financial statements.

The following tables do not include the amounts related to post year 2049 debt. Therefore, the Total New Receivables and Total Write-offs are understated. We are working to address the system limitation, however the accounts receivable balance reported on the financial statements are presented fairly in all material respects.

FY 2014 Quarterly Debt Management Activities Programmatic and Administrative Activity				
<u>Dollar Totals (in millions)</u>	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>Total receivables</b>	\$17,319	\$17,613	\$18,145	\$18,252
<b>New receivables</b>	1,074	2,523	4,632	5,976
<b>Total collections</b>	(875)	(1,775)	(2,677)	(3,686)
<b>Adjustments</b>	247	200	(263)	(309)
<b>Total write-offs</b>	(173)	(381)	(593)	(775)
- Waivers	(82)	(175)	(278)	(373)
- Terminations	(91)	(206)	(315)	(402)
<b>Aging schedule of debts:</b>				
- Non delinquent debt	11,153	11,568	12,009	11,895
- Delinquent debt				
- 180 days or less	1,386	1,202	1,268	1,398
- 181 days to 10 years	4,302	4,349	4,343	4,406
- Over 10 years	478	494	525	553
- Total delinquent debt	\$6,166	\$6,045	\$6,136	\$6,357

Debt Management Activities Programmatic and Administrative Activity					
<u>Dollar Totals (in millions)</u>	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Total receivables	\$15,212	\$15,854	\$16,588	\$17,046	\$18,252
New receivables	5,736	6,102	5,955	5,616	5,976
Total collections	(3,650)	(3,633)	(3,663)	(3,817)	(3,686)
Adjustments	(888)	(809)	(536)	(391)	(309)
Total write-offs	(986)	(1,018)	(1,022)	(950)	(775)
- Waivers	(497)	(546)	(502)	(421)	(373)
- Terminations	(489)	(472)	(520)	(529)	(402)
Non delinquent debt	11,055	11,190	11,589	11,268	11,895
Total delinquent debt	\$4,157	\$4,664	\$4,999	\$5,778	\$6,357
<u>Percentage Analysis</u>					
% of outstanding debt:					
- Non delinquent	72.7%	70.6%	69.9%	66.1%	65.2%
- Delinquent	27.3%	29.4%	30.1%	33.9%	34.8%
% of debt estimated to be uncollectible*	27.7%	27.8%	27.3%	26.3%	25.5%
% of debt collected	24.0%	22.9%	22.1%	22.4%	20.2%
% change in collections from prior fiscal year	2.5%	-0.5%	0.8%	4.2%	-3.4%
% change in delinquencies from prior fiscal year	4.7%	12.2%	7.2%	15.6%	10.0%
Clearances as a % of total receivables	30.5%	29.3%	28.2%	28.0%	24.4%
- Collections as a % of clearances	78.7%	78.1%	78.2%	80.1%	82.6%
- Write-offs as a % of clearances	21.3%	21.9%	21.8%	19.9%	17.4%
<u>Other Analysis</u>					
Cost to collect \$1	\$0.07	\$0.08	\$0.07	\$0.07	\$0.07
Average number of months to clear receivables:					
- OASI	16	15	15	15	15
- DI	45	38	49	66	55
- SSI	35	35	36	38	39

\* The percentage is derived from Allowance for Doubtful Accounts found in footnote 6 of the financial statements.

#### Definitions:

- Adjustments – Program debt adjustments represent: (a) written-off debts, by way of terminations, that we reinstate for collections; (b) changes in debts when we update debtor accounts with new information; and (c) minor differences between reports containing debt information that we use to maintain an ending accounts receivable balance.
- Waivers – Waivers represent the amount of overpayments forgiven because the overpaid person: (a) is without fault in causing the debt; and (b) recovery would either defeat the purpose of the act or be against equity and good conscience. Waivers permanently remove debts from our accounts receivable balance, which precludes any further collection efforts.
- Terminations – Terminations represent our decision to cease our own efforts to collect a debt because: (a) the debtor will not repay the debt or alleges they cannot pay the debt; (b) we cannot locate the debtor after diligent search; or (c) the debt is at least two years delinquent. Even though we terminate internal active collection, we may still use external collection efforts such as the Treasury Offset Program and

Administrative Wage Garnishment. If the debtor becomes entitled to OASDI benefits or eligible for SSI payments, we reinstate the debt and resume recovery through benefit/payment withholding.

4. Delinquent Debt – A debt is delinquent when no voluntary payment has been made 30 days after the latest of the following: (a) the date we establish an OASDI debt; (b) the date of the initial overpayment notice for a SSI debt; (c) the date of the last voluntary payment; (d) the date of an installment or periodic payment arrangement (if we do not receive a payment); and (e) the date we decide a debtor remains responsible for a debt, in response to a due process action by the debtor.

# IMPROPER PAYMENTS INFORMATION DETAILED REPORT

## BACKGROUND

Our Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) program integrity workloads are critical to ensuring efficient programs and accurate payments. We take our responsibility to reduce improper payments very seriously. As good stewards of our resources and taxpayer funds, we remain focused on the integrity of our programs, including minimizing improper payments. “Strengthen the Integrity of Our Programs” is a Strategic Goal in our [Agency Strategic Plan for Fiscal Years \(FY\) 2014 - 2018 \(www.socialsecurity.gov/asp/plan-2014-2018.pdf\)](http://www.socialsecurity.gov/asp/plan-2014-2018.pdf). Each year, we report improper payment findings, both overpayments and underpayments, from our stewardship reviews of the non-medical aspects of the OASI, DI, and SSI programs. In accordance with the Office of Management and Budget (OMB) guidelines for implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), we report as improper those payments that result from:

- Our mistake in computing the payment;
- Our failure to obtain or act on available information affecting the payment;
- A beneficiary’s failure to report an event; or
- A beneficiary’s incorrect report.

The information presented in this report complies with the guidance provided in IPIA, OMB Circular No. A-123, Appendix C, Parts I and II, *Requirements for Effective Measurement and Remediation of Improper Payments*, and OMB Circular No. A-136, *Financial Reporting Requirements*. This report provides general information demonstrating our commitment to reducing improper payments. It also contains descriptions of our efforts in reducing improper payments for our OASDI and SSI benefit programs and our administrative payments.

Additional information on our efforts to curb improper payments for the OASDI and SSI programs and to meet the requirements of Executive Order 13520, *Reducing Improper Payments*, is available at [our public improper payments website at: www.socialsecurity.gov/improperpayments](http://www.socialsecurity.gov/improperpayments).

## RISK SUSCEPTIBLE PROGRAM

IPERA expanded the definition of programs susceptible to significant improper payments to include programs with improper payments estimated to exceed \$100 million. Under this definition, our OASI, DI, and SSI programs are susceptible to significant improper payments. We estimate improper payments in these programs in terms of overpayments and underpayments. See Table 1 for details of our OASI and DI improper payments, and Table 6 for details of our SSI improper payments.

OMB’s IPERA guidance requires us to evaluate all of our payment outlays (i.e., payments from the OASI, DI, and SSI programs and other outlays, such as administrative payments). Since 2003, we have reviewed our administrative payments, including payroll disbursements and vendor payments. We found these payments were not

susceptible to significant improper payments. Further information on this risk assessment of our administrative payments is available in the Improper Administrative Payments section of this improper payments report.

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## RISK ASSESSMENT: BENEFIT PAYMENTS

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To comply with IPERA's risk assessment requirements, we conduct an annual stewardship review of our OASDI and SSI payments. Our stewardship review is a proven, cost-effective means for evaluating payment accuracy and identifying major causes of improper payments in our benefit programs, and OMB has approved it as a means to assess the risk of improper payments in our programs.

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## STATISTICAL SAMPLING

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We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a statistically valid sample of OASI, DI, and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee and redevelop all non-medical factors of eligibility as of the sample month to determine whether the payment was correct. Any difference between what we actually paid and what the reviewer determines we should have paid is expressed as an overpayment or underpayment error. We based the data in the OASDI and SSI Improper Payments Experience tables on cases sampled in FY 2013. We will not have FY 2014 data until April 2015. We will report our findings from the FY 2014 stewardship reviews in next year's *Improper Payments Information Detailed Report*.

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refers to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay more or less than we should have. Some cases have more than one error causing an incorrect payment, with each of these errors referred to as a deficiency. We analyze and track the individual effect of each separate cause of error. Because we project findings from samples, we use a five-year rolling average for each type of deficiency to identify and rank error trends.

Stewardship review findings provide the data necessary to meet the IPIA reporting requirements. The OASDI and SSI payment accuracy rates developed in the stewardship reviews reflect the accuracy of payments issued to OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI.

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## IMPROPER PAYMENTS STRATEGY

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For FY 2014, we continued to focus our improper payments strategy to align with our Improper Payments Governance. We are working in collaboration with our Federal partners, stakeholders, and beneficiaries to attain our agency Strategic Goal to "Strengthen the Integrity of Our Programs." Proper management of payments is an essential element of our goal.

Under this Strategic Goal, we will:

- Collaborate with other Federal agencies, such as the Department of Veterans Affairs (VA) and Centers for Medicare and Medicaid Services within the Department of Health and Human Services (HHS), to find innovative ways to prevent and reduce improper payments;
- Increase efforts to recover overpayments;

- Enhance predictive models and automation tools to help identify error-prone aspects of benefit eligibility;
- Expand the use of data analytics to reduce fraud and payment errors; and
- Streamline the Representative Payee Program to better identify potential misuse of benefits.

In addition to our on-going efforts to curb improper payments, we identified the following seven key strategic initiatives to achieve our Strategic Goal:

- Increase Access to Financial Institutions (AFI) information;
- Enhance the SSI wage-reporting process;
- Identify non-home real property;
- Increase post-entitlement accuracy;
- Improve death data processing;
- Impose administrative sanctions; and
- Enhance debt collection policy and practices.

We will discuss these initiatives and how they relate to reducing improper payments in our OASDI and SSI programs in the sections of this improper payments report titled Major Causes of OASDI Improper Payments and Major Causes of SSI Improper Payments, respectively. For the initiatives that affect improper payments in both programs, please refer to the section of this improper payments report titled Efforts to Reduce Fraud, Waste, and Abuse in the OASDI and SSI Programs.

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## IMPROPER PAYMENTS IN THE OASI AND DI PROGRAMS

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### EXPERIENCE AND OUTLOOK

Table 1 shows the improper payment rates for the OASI and DI programs for FYs 2011, 2012, and 2013. We calculate the overpayment rate by dividing overpayment dollars by total dollars paid, and the underpayment rate by dividing underpayment dollars by total dollars paid.



**Table 1: OASDI Improper Payments Experience**  
**FY 2011 – FY 2013**  
(dollars in millions)

	FY 2011		FY 2012		FY 2013	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>OASI</b>						
Total Benefit Payments	\$588,865		\$643,100		\$692,700	
Underpayment Error	\$468	0.08%	\$517	0.08%	\$682	0.10%
Overpayment Error	\$653	0.11%	\$469	0.07%	\$1,100	0.16%
<b>DI</b>						
Total Benefit Payments	\$128,086		\$127,200		\$131,500	
Underpayment Error	\$479	0.37%	\$223	0.18%	\$417	0.32%
Overpayment Error	\$1,624	1.27%	\$1,239	0.97%	\$744	0.57%
<b>Combined OASDI</b>						
Total Benefit Payments	\$716,951		\$770,300		\$824,200	
Underpayment Error	\$946	0.13%	\$740	0.10%	\$1,100	0.13%
Underpayment Target		≤0.20%		≤0.20%		≤0.20%
Overpayment Error	\$2,277	0.32%	\$1,708	0.22%	\$1,900	0.22%
Overpayment Target		≤0.20%		≤0.20%		≤0.20%

## Notes:

1. Total benefit payments for FYs 2011, 2012, and 2013 represent estimated cash outlays while conducting the annual stewardship reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. FY 2014 data will not be available until April 2015.
3. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.
4. OASI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2011, +0.07 percent and -0.08 percent for underpayments and ±0.08 percent for overpayments; for FY 2012, +0.05 percent and -0.06 percent for underpayments and ±0.04 percent for overpayments; and for FY 2013, +0.10 percent and -0.13 percent for underpayments and +0.16 percent and -0.17 percent for overpayments.
5. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2011, +0.36 percent and -0.49 percent for underpayments and ±1.21 percent for overpayments; and for FY 2012, +0.17 percent and -0.26 percent for underpayments and +0.86 percent and -0.87 percent for overpayments; and for FY 2013, +0.32 percent and -0.33 percent for underpayments and +0.57 percent and -0.61 percent for overpayments.
6. Changes in the OASDI error rates from FY 2011 to FY 2012 and from FY 2012 to FY 2013 are not statistically significant.

Over the last 5 years (FYs 2009-2013), our stewardship reviews estimate that we paid approximately \$3.0 trillion to OASI beneficiaries. Of that total, we estimate \$5.0 billion were overpayments, representing approximately 0.16 percent of outlays. We estimate that underpayments during this same period were \$2.6 billion, the equivalent of approximately 0.08 percent of outlays.

Applying the same analysis to the DI program, we estimated that we paid \$624.8 billion to DI beneficiaries over the last 5 years (FYs 2009-2013). Of that total, we estimate \$6.1 billion were overpayments, representing approximately 0.98 percent of outlays. We estimate underpayments during this same period totaled \$2.6 billion, the equivalent of approximately 0.41 percent of outlays.

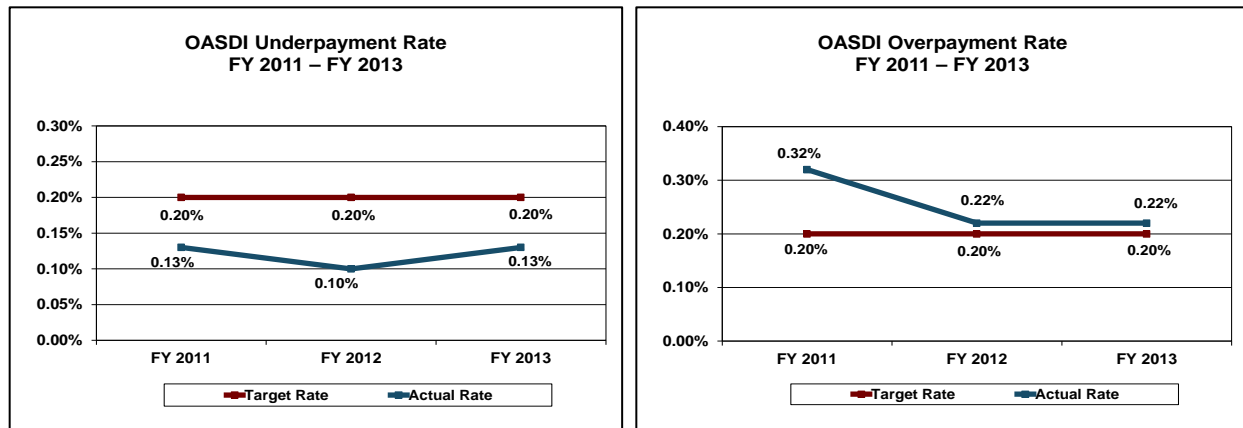


Table 2 presents our accuracy targets for FYs 2014, 2015, and 2016 for the OASDI programs. In the OASDI program, our goal is to maintain a 99.8 percent accuracy rate for program payments.

Table 2: OASDI Improper Payments Reduction Outlook FY 2014 – FY 2016 (dollars in millions)						
	FY 2014 Target		FY 2015 Target		FY 2016 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>OASDI</b>						
Total Benefit Payments	\$840,639		\$887,509		\$939,202	
Underpayments	\$1,681	0.20%	\$1,775	0.20%	\$1,878	0.20%
Overpayments	\$1,681	0.20%	\$1,775	0.20%	\$1,878	0.20%
Notes:						
1. We do not have separate OASI and DI targets; therefore, we present a combined OASI and DI target.						
2. FY 2014 data will not be available until late April 2015; therefore, the rates shown are targets.						
3. Total benefit payments for FYs 2014-2016 are estimates consistent with projections for the Mid-Session Review of the President's FY 2015 Budget.						

## MAJOR CAUSES OF OASDI IMPROPER PAYMENTS

Table 3 lists the major causes of improper payments (overpayments and underpayments) in the OASDI program using OMB's three categories of error.

Table 3: Major Causes of OASDI Improper Payments in FY 2013		
	% of Improper Payments	Major Types of Errors
<b>Administrative and Documentation Errors</b>	66%	Incorrect computations, onset dates, and earnings history
<b>Verification and Local Administration Errors</b>	26%	Non-verification of earnings, income, or work status (e.g., in relation to substantial gainful activity (SGA) and Government Pension Offset (GPO)); inputting, classifying, or processing applications or payments incorrectly
<b>Authentication and Medical Necessity Errors</b>	8%	Relationship/dependency errors and failure to report cessation of full-time attendance for students
<p>Notes:</p> <p>Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:</p> <ul style="list-style-type: none"> <li>• <b>Administrative and Documentation Errors</b> are due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.</li> <li>• <b>Verification and Local Administration Errors</b> are due to not verifying recipient information, including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency, or third party who is not the beneficiary.</li> <li>• <b>Authentication and Medical Necessity Errors</b> are due to being unable to authenticate criteria such as living arrangements or incorrectly assessing the necessity of a medical procedure.</li> </ul>		

Our stewardship review findings over the last five years show that the major causes of overpayments in the OASDI program are SGA and errors in computations. The major cause of underpayments is errors in computations. (Note: [A definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html](http://www.socialsecurity.gov/oact/cola/sga.html).)

### SUBSTANTIAL GAINFUL ACTIVITY

#### DESCRIPTION:

When disability beneficiaries work, a number of factors determine whether they can continue to receive monthly benefits. Improper payments occur when beneficiaries fail to report earnings timely, or we do not take the proper actions to process work reports. The following chart shows the five-year rolling average of SGA overpayment deficiency dollars.

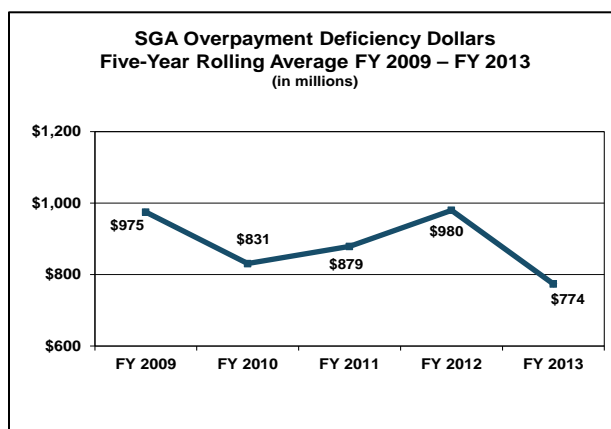
**HISTORICAL FIGURES:****CORRECTIVE ACTIONS:**

Table 4 shows our actions to ensure timely processing of beneficiaries' earnings.

Table 4: SGA – Corrective Actions		
Description	Target Completion	Status
<b><u>Audit Recommendation</u></b>		
To minimize improper payments, we agreed with an audit recommendation to make it a priority to identify cases where we failed to terminate the disability payments following medical cessation determinations.	Ongoing	In April 2014, we initiated a new computerized selection process to identify cases with medical cessations where benefits are continuing. We are working on corrective actions on the cases identified and enhancing our automated solutions to prevent such errors in the future.
<b><u>Predictive Model</u></b>		
We conducted the Continuing Disability Reviews Enforcement Operation (CDREO) Predictive Model Pilot.	Completed May 2013	We developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. The pilot operated October 2010 through May 2013. The predictive model helped us prioritize staff resources and reduced the amount of work-related overpayments.
We nationally implemented the CDREO Predictive Model.	Completed June 2013	After successful completion of the pilot (above), we nationally implemented the model to prioritize review of earnings for beneficiaries who are at risk of receiving an overpayment due to work activity.

Table 4: SGA – Corrective Actions

Description	Target Completion	Status
We evaluated work Continuing Disability Reviews (CDR) selected by the CDREO Predictive Model for the first six months following national implementation.	Completed February 2014	In the first 6 months after we implemented the predictive model nationally, we ceased the benefits of nearly 8,200 beneficiaries and processed the resulting overpayments from work CDRs selected by the CDREO Predictive Model. Of those, we ceased about 44 percent within the first 90 days, compared to only 30 percent ceased within the first 90 days from CDRs selected without the predictive model.
We evaluated all work CDRs selected in FY 2013, including those selected outside of the CDREO Predictive Model.	Completed July 2014	<p>The following results compare all work CDRs selected in FY 2013 before and after national implementation of the CDREO Predictive Model:</p> <ul style="list-style-type: none"> <li>• Average number of months a beneficiary was overpaid decreased from 18 months to 14 months.</li> <li>• Average overpayment amount per overpaid working DI beneficiary decreased from approximately \$20,000 to \$16,000.</li> <li>• Total overpayments due to work decreased from approximately \$1.5 billion to \$1.0 billion.</li> </ul>
We are conducting a pilot to delay the Automated Earnings Reappraisal Operation (AERO) for cases with a pending work CDR. We are testing a new process to delay the benefit increase, which we may later determine to be an overpayment, resulting from an AERO, for a sample of disability beneficiaries with a pending work CDR. Our goal is to prioritize and review cases with unreported earnings before we compute and issue any benefit increase.	July 2015	<p>We used our predictive model to identify approximately 15,000 cases eligible for a benefit increase and delayed the AERO increase for 6 months. The first test of the pilot in October 2012 was a success with a smaller sample. We continued the pilot by drawing a larger sample in October 2013. The June 2014 evaluation found promising results from the processing that ended April 2014.</p> <p>We continued to pilot by selecting a new sample in October 2014, and we will analyze the data 90 days after the pilot ends in April 2015. The evaluation is due July 2015.</p>

**Table 4: SGA – Corrective Actions**

Description	Target Completion	Status
<b><u>Legislative Proposal</u></b>		
The President's FY 2015 Budget includes a proposal that would renew and enhance the DI demonstration authority that expired for projects initiated on or after December 18, 2005. This authority will allow us to conduct various demonstration projects. The budget proposal provides new resources for our agency, in partnership with other Federal agencies, to test innovative strategies to help people with disabilities remain in the workforce. Early intervention measures have the potential to achieve long-term gains in the employment and the quality of life of people with disabilities. In addition, the proposed demonstration authority will help build the evidence base for future program improvements.	Pending	No Congressional action to date.
The President's FY 2015 Budget includes a proposal that would restructure the wage-reporting process by requiring employers to report wages quarterly instead of annually. The proposal would not affect reporting on self-employment. Increasing the frequency of wage reporting could enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

## COMPUTATIONS

### DESCRIPTION:

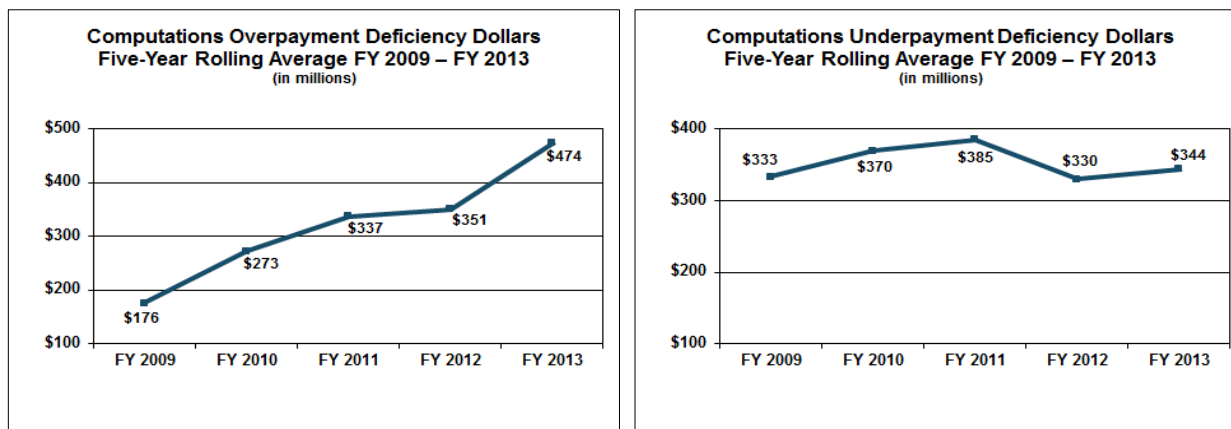
Errors in computations are a major cause of both OASDI overpayments and underpayments.

We base a person's benefit amount on a number of factors, including age, earnings history, and the type of benefit awarded.

Inaccurate information or administrative mistakes can cause errors in calculating benefits. For FYs 2009-2013, approximately 58 percent of the computation errors resulted in overpayments, with the leading causes being the Windfall Elimination Provision (WEP) (Note: [A definition of WEP is available at: www.socialsecurity.gov/pubs/10045.html](http://www.socialsecurity.gov/pubs/10045.html)) adjustment of the reduction factor computation, and the failure to apply the Retirement Insurance Benefit Limitation (RIB-LIM) when applicable. RIB-LIM applies when a deceased beneficiary received a reduced retirement benefit. Under RIB-LIM, the maximum benefit for a surviving spouse or surviving divorced spouse is limited to what the deceased beneficiary would receive if he or she were still alive.

Approximately 42 percent of computation errors from FYs 2009-2013 resulted in underpayments. The leading causes of underpayments are the miscalculation of the initial benefit amount and errors in recalculating benefits due to updated or new information received after our initial calculation of an individual's benefit amount.

### HISTORICAL FIGURES:



## CORRECTIVE ACTIONS

### INCREASE POST-ENTITLEMENT ACCURACY

Recent studies indicate that we can improve accuracy in the areas of processing OASDI work CDRs and other changes to a beneficiary's record after they are already entitled to benefits. An internal workgroup is identifying workflow adjustments, policy changes, training, and automation solutions to improve post-entitlement accuracy.

Our studies also show that we sometimes overlook potential entitlements (i.e., entitlement to benefits other than the one an individual is applying for or receiving). In FY 2013, we began to address four potential entitlement workloads. By addressing post-entitlement accuracy and identifying potential entitlements, we will reduce improper overpayments and underpayments.

Table 5 shows our actions to increase our post-entitlement accuracy.

Table 5: Increase Post-Entitlement Accuracy		
Description	Target Completion	Status
Better define the OASDI systems alert, exception, and processing limitation codes to give technicians more precise information on actions needed.	To be determined by results of planning.	Planning and analysis for the system correction began in FY 2014.
Introduce an inline quality review in our processing centers.	July 2015	Through the end of FY 2014, we had implemented an inline quality review process in four of our processing centers. If we find that our payment and processing accuracy improves in these processing centers, we will implement the inline review process in the three remaining processing centers as well.
Pursue potential entitlement workloads.	<p>Completed September 2014</p> <p>Completed March 2014</p> <p>FY 2015</p>	<p>In FY 2014, we evaluated the following initiatives:</p> <ul style="list-style-type: none"> <li>Outstanding Potential Entitlement Referral Account Cases: We identified SSI recipients who are potentially entitled to OASDI benefits. <ul style="list-style-type: none"> <li>Through September 2014, we reviewed 184 cases and entitled 57 individuals to OASDI benefits.</li> </ul> </li> <li>We identified widows potentially entitled to higher benefits on the record of a former spouse, who is now deceased. <ul style="list-style-type: none"> <li>In March 2014, we sent letters to over 2,800 widows, informing them of their higher potential benefits. Through September 2014, over 500 widows have filed for benefits and are currently receiving an average monthly increase of \$708.</li> </ul> </li> <li>Veteran's Pension Referral: We identified SSI recipients who were scheduled for a redetermination in FY 2014 and were possibly eligible for a veteran's pension. <ul style="list-style-type: none"> <li>Through September 2014, we reviewed over 5,400 cases out of 5,748 identified. Of those, we referred over 4,200 to the VA.</li> </ul> </li> </ul>



**Table 5: Increase Post-Entitlement Accuracy**

Description	Target Completion	Status
The President's FY 2015 Budget includes a proposal to develop automated data exchanges for States and local governments to submit information on pensions based on work not covered by Social Security. The proposal includes funding for the development and implementation of the necessary data exchanges. Receiving this pension information in a timely manner would help us avoid improper payments created when we do not know a beneficiary is receiving a pension that makes WEP and GPO applicable.	Pending	No Congressional action to date.

## IMPROPER PAYMENTS IN THE SSI PROGRAM

### EXPERIENCE AND OUTLOOK

Table 6 shows the improper payment rates for the SSI program for FYs 2011, 2012, and 2013. We calculate the overpayment rate by dividing overpayment dollars by dollars paid, and the underpayment rate by dividing underpayment dollars by dollars paid.

Table 6: SSI Improper Payments Experience FY 2011 – FY 2013 (dollars in millions)			
	FY 2011	FY 2012	FY 2013
<b>Total Federally Administered Payments</b>			
Dollars	\$51,654	\$53,411	\$55,350
<b>Underpayments</b>			
Dollars	\$947	\$948	\$918
Target Rate	≤1.20%	≤1.20%	≤1.20%
Actual Rate	1.83%	1.78%	1.66%
<b>Overpayments</b>			
Dollars	\$3,791	\$3,387	\$4,189
Target Rate	≤6.70%	≤5.00%	≤5.00%
Actual Rate	7.34%	6.34%	7.57%
Notes:			
<ol style="list-style-type: none"> <li>1. Total federally administered payments represent estimated program outlays while conducting the annual stewardship reviews and may vary from actual outlays.</li> <li>2. FY 2014 data will not be available until April 2015.</li> <li>3. The percentages and dollar amounts presented in Table 6 are correct based on actual numbers used from the source data. However, there may be differences in the calculated overpayment and underpayment rates due to rounding.</li> <li>4. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2011, ±0.38 percent for underpayments and ±1.08 percent for overpayments; for FY 2012, ±0.53 percent for underpayments and ±1.78 percent for overpayments; and for FY 2013, ±0.45 percent for underpayments and ±1.83 percent for overpayments.</li> <li>5. The decrease in SSI overpayment accuracy from FY 2012 to FY 2013, though not statistically significant, was due primarily to increases in financial account and in-kind support and maintenance (ISM) overpayment deficiency dollars in FY 2013.</li> </ol>			

Over the last 5 years (FYs 2009-2013), our stewardship reviews estimate that we paid approximately \$258.7 billion to SSI recipients. Of that total, we estimate \$18.7 billion were overpayments, representing about 7.2 percent of outlays. We estimate that underpayments during this same period were \$4.8 billion, the equivalent of approximately 1.9 percent of outlays.

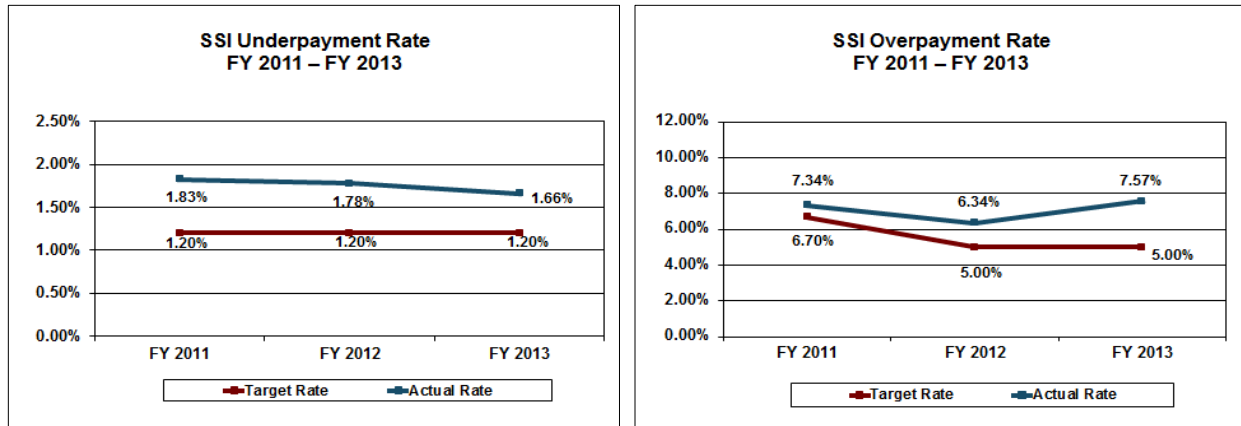


Table 7 shows our target accuracy goals for FYs 2014, 2015, and 2016 for the SSI program.

Table 7: SSI Improper Payments Reduction Outlook FY 2014 – FY 2016 (dollars in millions)						
	FY 2014 Target		FY 2015 Target		FY 2016 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>Total Federally Administered Payments</b>	\$57,364		\$58,418		\$60,118	
<b>Underpayments</b>	\$688	1.20%	\$701	1.20%	\$721	1.20%
<b>Overpayments</b>	\$2,868	5.00%	\$2,921	5.00%	\$3,006	5.00%
Note: 1. Total federally administered SSI payments are estimates consistent with projections for the Mid-Session Review of the President's FY 2015 Budget, adjusted to be presented on a constant 12 month per year payment basis.						

## MAJOR CAUSES OF SSI IMPROPER PAYMENTS

Table 8 shows major causes of improper payments (overpayments and underpayments) in the SSI program using OMB's three categories of error.

Table 8: Major Causes of SSI Improper Payments in FY 2013		
	% of Improper Payments	Major Types of Errors
<b>Verification and Local Administration Errors</b>	58%	Detection of unreported financial accounts and wages
<b>Authentication and Medical Necessity Errors</b>	30%	Existence or changes to living arrangements and ISM
<b>Administrative and Documentation Errors</b>	12%	Incorrect computations, misapplication of an income or resource exclusion, and wrong month of change
<p>Notes:</p> <p>Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:</p> <ul style="list-style-type: none"> <li>• <b>Verification and Local Administration Errors</b> are due to not verifying recipient information, including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency or third party who is not the beneficiary.</li> <li>• <b>Authentication and Medical Necessity Errors</b> are due to being unable to authenticate criteria such as living arrangements or incorrectly assessing the necessity of a medical procedure.</li> <li>• <b>Administrative and Documentation Errors</b> are due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.</li> </ul>		

SSI is a means-tested program for individuals with limited income and resources who are blind, disabled, or aged. This program is complex because fluctuations in monthly income, resources, and living arrangements may affect eligibility and monthly payment amounts. Improper payments often occur if recipients (or their representative payees on their behalf) or deemors (i.e., individuals such as a parent or spouse whose income and resources are considered in determining an applicant's or recipient's eligibility and payment) fail to report changes on time in any of these factors (e.g., an increase of their resources or a change in their wages). Failure to report such changes is the primary cause of both overpayment and underpayment errors.

Our stewardship findings over the last five years show that the major causes of overpayments in the SSI program have been errors or omissions in the following:

- Financial accounts (e.g., bank savings or checking accounts, or credit union accounts);
- Wages;
- ISM; and
- Other real property (i.e., ownership of non-home real property).

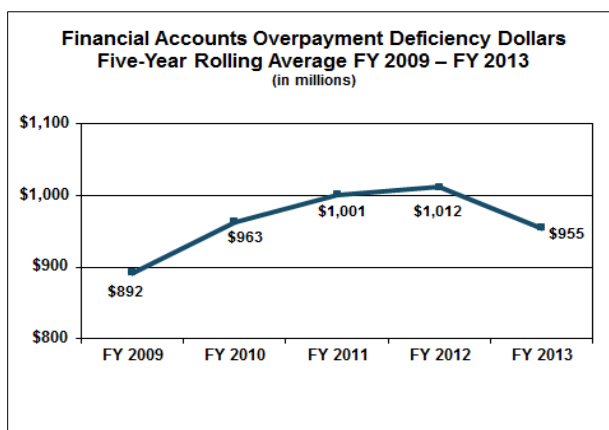
Over the last five years, the major causes of underpayments in the SSI program have been errors or omissions in ISM, living arrangements, and wages. Information for the corrective action for living arrangements is in the SSI Corrective Actions section for ISM.

## FINANCIAL ACCOUNTS

### DESCRIPTION:

Financial accounts with countable resources in excess of the allowable resource limits are the leading cause of SSI overpayment errors. When an applicant or recipient (or his or her parent or spouse) has financial accounts exceeding the allowable resource limits, these accounts may result in periods of SSI ineligibility.

### HISTORICAL FIGURES:



### CORRECTIVE ACTIONS:

To address overpayment errors related to financial accounts, we developed the AFI program. AFI is an electronic process that verifies alleged bank account balances with financial institutions to identify excess resources in financial accounts held by SSI applicants, recipients, and deemors. In addition to verifying alleged accounts, AFI detects undisclosed accounts by searching for accounts in financial institutions located near the SSI applicant, recipient, or deemor.

We will reduce SSI improper payments resulting from excess financial resources by using the AFI process on all initial claims and redeterminations (i.e., a review of a recipient's non-medical eligibility factors such as income and resources to determine continued eligibility and payment amount) and conducting up to 10 searches per individual for undisclosed accounts.

Table 9 shows our actions to reduce errors related to financial accounts.

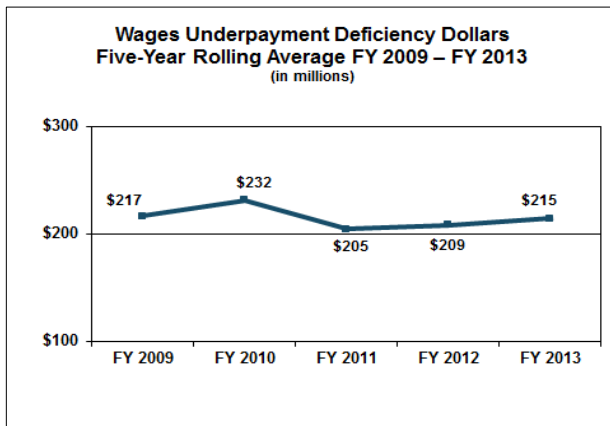
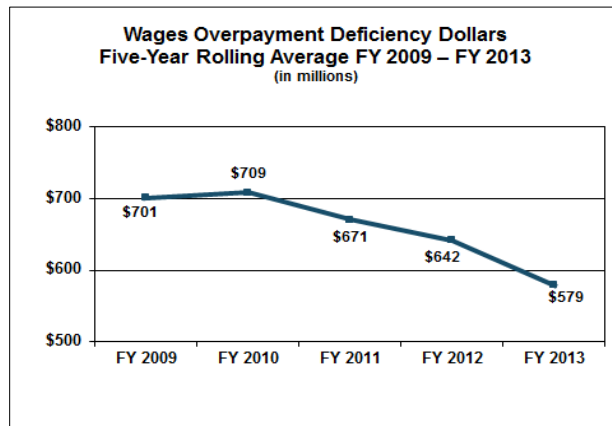
Table 9: Financial Accounts – Corrective Actions		
Description	Target Completion	Status
Expand use of AFI and increase the number of undisclosed bank account searches.	Completed October 2013	Based upon a return-on-investment analysis, we committed resources to use AFI in more SSI applications and redeterminations to verify financial accounts. We further lowered the AFI threshold to verify liquid financial resources and increased undisclosed bank account searches.
Evaluate the effect of increased undisclosed bank account searches and a lowered tolerance.	December 2014	Planning and analysis to evaluate the effect of expanded AFI use began June 2014.
Begin the next five-year AFI contract.	January 2015	The current five-year AFI contract expires June 2015. We developed a statement of work and expect an award for the next contract in January 2015.

## WAGES

### DESCRIPTION:

For more than a decade, wage discrepancies have been one of the leading causes of SSI overpayment and underpayment errors. Wage discrepancies occur when the recipient (or his or her parent or spouse) has actual wages that differ from the wage amount used to calculate the SSI payment.

### HISTORICAL FIGURES:



**CORRECTIVE ACTIONS:**

We rely on individuals to self-report wages to us on time, but from experience, we know that they may fail to report or fail to report soon enough to prevent an improper payment. Instead of relying solely on self-reporting, we are exploring using wage information we receive from other sources for timely and accurate wage reports. As part of the SSI application process, we will request that applicants for SSI provide their consent for us to obtain information from other sources. We will modify our policy and supporting operating process to allow us to use the wage information we obtain from these sources more efficiently. We will pursue legislative authority that will permit us to automate the process of obtaining wage information and adding wage information to our systems, thereby conserving administrative resources and reducing improper payments.

We developed several new communication initiatives to help encourage recipients not only to remember to report events that can affect eligibility or payment amounts, such as changes in living arrangements, but also to make it easier for them to comply with reporting requirements. For example, we created two educational resources that field offices (FO) give recipients during claims and redeterminations:

- A two-pocket folder – The folder includes panels that list the SSI reporting requirements and pockets to store key documents such as wage stubs or other materials to help people report accurately.
- A business card – This small card contains information on the reporting requirements to be kept in a wallet or with other important papers.

Other examples of our corrective actions to address the root causes of wage-related errors include options for recipients (or representative payees on their behalf) or their deemors to self-report wages via telephone or a smartphone application. Beginning October 2013, recipients, representative payees, and deemors were able to use those automated reporting tools to report prior monthly wage amounts anytime during the current month.

- SSI Telephone Wage Reporting System (SSITWR)

In FY 2008, we implemented SSITWR, which allows recipients, representative payees, and deemors to report prior monthly gross wages via an automated telephone system. SSITWR ensures we post the wage amounts to the individual's record in a timely manner.

- SSI Mobile Wage Reporting Smartphone Application

Beginning in December 2012, 50 FOs across all 10 regions began a pilot project for mobile wage reporting. This initiative allowed SSI recipients, representative payees, and deemors to use their smartphones to report a prior month's gross wages, using an application they can download at no cost from the Google Play and Apple App stores. The initial pilot was successful, and we expanded it to nearly 270 participating FOs in March 2013. The expanded phase of the pilot was successful as well, with more than 9,000 wage reports submitted using the smartphone application during the entire pilot. We rolled out the initiative nationally on August 1, 2013, following the release of some minor system improvements made as the result of feedback received during the pilot.

We continue to successfully increase the number of wage reports SSI recipients submit using our automated SSI wage reporting systems. In September 2014, we processed over 64,300 successful automated wage reporting transactions.

Table 10 shows our actions to reduce errors related to wages.

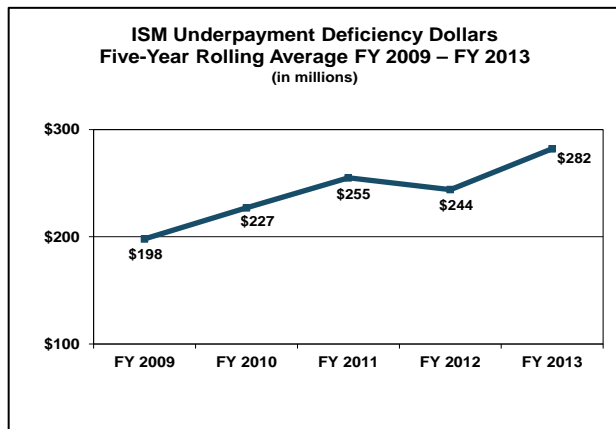
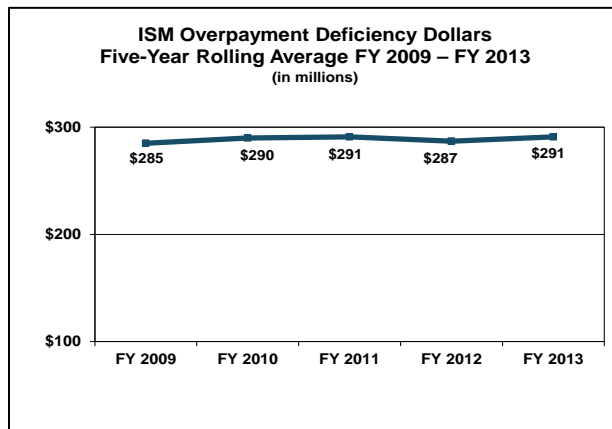
Table 10: Wages – Corrective Actions		
Description	Target Completion	Status
<p>Explore using wage information we receive from other sources for timely and accurate wage reports.</p> <p>Request that applicants for SSI provide their consent for us to obtain information from other sources.</p> <p>Modify our policy and supporting operating process to allow the use of wage information we obtain from those sources.</p> <p>Automate the process of obtaining wage information and adding wage information to our systems, thereby conserving administrative resources and reducing improper payments.</p>	Ongoing	We began planning in FY 2014 and will continue in FY 2015.

## IN-KIND SUPPORT AND MAINTENANCE

### DESCRIPTION:

ISM is unearned income in the form of food or shelter received. Underpayments can occur when the recipient's ISM amount is less than the amount used to calculate his or her monthly payment. Overpayments can occur when the recipient fails to report ISM. Studies show that many of the errors attributed to ISM are due to the complexity of the statutory policies for the program. These policies are difficult for SSI recipients to understand, making it problematic for them to report changes in a timely manner.

### HISTORICAL FIGURES:





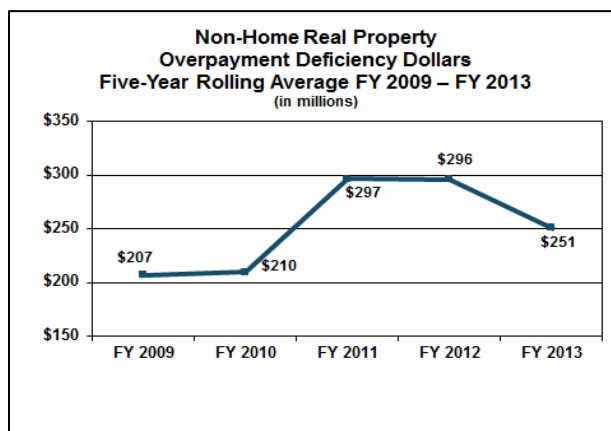
**CORRECTIVE ACTIONS:**

Table 11 shows our actions to reduce errors stemming from ISM.

Table 11: ISM – Corrective Actions		
Description	Target Completion	Status
<b><u>Statutory, Regulatory, Policy and Procedure Review</u></b>		
We frequently review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes.	Ongoing	As a result of our reviews, we issue periodic reminders and policy clarifications, as needed. We will continue to work with Congress and other stakeholders to identify possible statutory/regulatory changes.

**OTHER REAL PROPERTY****DESCRIPTION:**

Undisclosed non-home real property is a leading cause of improper overpayments in the SSI program. For the last 5 years, stewardship reviews identified real property as the fourth leading cause of SSI overpayments, with average projected improper payments of \$251 million in SSI overpayments. SSI ineligibility may result if the recipient is the owner of real property other than his or her principal place of residence, and the equity value exceeds the resource limit. We currently rely on the applicant or recipient to report ownership of non-home real property. Our corrective actions, discussed on the following page, are designed to identify undisclosed property owned by the recipient or demor.

**HISTORICAL FIGURES:****CORRECTIVE ACTIONS:**

Real property ownership information is available publicly and property information for all 50 States is available through commercial data providers (e.g., *LexisNexis/Accurint*). To test the feasibility of using a commercial provider to identify real property, we began a study for SSI claims and redeterminations.

Table 12 shows our actions to reduce errors related to non-home real property.

Table 12: Other Real Property – Corrective Actions		
Description	Target Completion	Status
Test in 100 FOs to determine the cost benefit of using <i>LexisNexis/Accurint</i> during initial claims interviews to identify real property owned by applicants or deemors that result in ineligibility for SSI.	Completed September 2013	FOs screened over 23,000 initial SSI claims against real property data in <i>LexisNexis/Accurint</i> .  We analyzed the data to determine the cost benefit of using <i>LexisNexis/Accurint</i> , including improper payments prevented and time our FOs spent to query and review the real property data.  We released our findings in December 2013, and we estimate a return on investment of approximately \$2.4 for every dollar spent.
Test during high-error redetermination interviews (in the same 100 FOs) the use of <i>LexisNexis/Accurint</i> data to identify improper payments due to non-home real property ownership.	Completed September 2014	We began this study in December 2013, and it concluded in June 2014. We analyzed the data from over 19,000 redeterminations and delivered our findings and recommendations, along with the initial claims findings, in September 2014. We estimate a return on investment of approximately \$18 for every dollar spent.
Based on test findings, integrate third-party non-home real property data for use during SSI initial claims and redetermination interviews.	TBD	The recommendations resulting from the initial claims and redetermination tests require an executive decision to move forward.

## EFFORTS TO REDUCE FRAUD, WASTE, AND ABUSE IN THE OASDI AND SSI PROGRAMS

The following key initiatives enhance our program integrity efforts. By improving our death data processing, we will ensure that our records are in agreement, reflecting death information accurately, and thereby preventing erroneous payments. We revised our administrative sanctions policy to ensure that we consistently apply sanctions throughout our programs, which will enable us to better address fraud.

### DEATH REPORTS

#### DESCRIPTION

Current systems limitations prevent some death data from being processed effectively and shared between our Numident database and programmatic systems. The Numident is our electronic database of our records of Social Security numbers (SSN) assigned since 1936. We have three projects to address these problems:

- Establish a unique termination code for beneficiaries age 115 and over who have been in long-term payment suspense and for whom we did not receive a notification of death;

- Conduct an ongoing monthly comparison to ensure deaths recorded on the Numident are also recorded in our programmatic systems; and
- Perform a large-scale redesign of our death processing system to eliminate the causes of incorrect death reporting and improve the sharing of information between our programmatic systems.

**CORRECTIVE ACTIONS:**

Table 13 shows our actions to reduce errors related to death reporting.

<b>Table 13: Death Reports – Corrective Actions</b>		
<b>Description</b>	<b>Target Completion</b>	<b>Status</b>
Terminate records of beneficiaries over 115 years old who are in long-term suspense status.	Ongoing	We established a new code in our OASDI programmatic system to terminate records for aged individuals in long-term suspense where we did not receive notification of death.  In FY 2013, we terminated approximately 9,200 records using the new code. In FY 2014, we manually terminated approximately 7,000 beneficiaries.
Conduct Numident death match reviews.	Completed June 2013	We released alerts to our FOs to resolve cases where we have death information for an individual on our Numident, but the individual continues to receive benefits or will soon receive a payment. From June 2013 through the end of FY 2014, our FOs have resolved over 89,000 alerts generated from the Numident death match.
Death Alert, Control, and Update System redesign.	September 2016	The Death Processing Redesign is a multi-year project to improve our death report processing. The redesign will make improvements affecting multiple systems to reduce improper payments. In FY 2014, we created new intelligent, web-based death entry screens known as the Death Information Processing System (DIPS). These screens will enforce death policy, enhance security, and reduce keying errors. In FY 2015, we plan to interface DIPS with additional agency applications.

In addition to our efforts listed above, while performing our study on centenarians (i.e., individuals who are at or near 100 years of age) in 2012, we found several deceased widows still receiving OASDI payments many years after their date of death. In these cases, the beneficiary's own account number (BOAN) was missing from the Master Beneficiary Record (MBR) on the SSN where benefits were paid. When this condition exists, we face an increased likelihood that we may make improper payments after death because the SSN on the auxiliary or survivor death record has no direct link to the MBR. We searched the entire MBR and identified 5,125 aged spouses or widows receiving benefits who did not have a BOAN established on the SSN on which they are receiving benefits. Our field sites have completed the initial analysis of the cases.

Our June 2014 report, *Entitled Aged Spouses or Widows Without Their Own Social Security Numbers on the Master Beneficiary Record*, details our efforts to resolve the cases identified in our MBR search. In summary, almost all of the beneficiaries still alive and receiving monthly benefits now have their BOAN posted to the MBR. Ongoing

incorrect monthly benefits paid to deceased beneficiaries have stopped. This cleanup lessened the likelihood of improper payments occurring in the future due to a reported death that cannot match an SSN on the MBR. This was a one-time cleanup operation since a BOAN should now be present on the MBR. Beneficiaries are now required to have, or have applied for, an SSN when filing for OASDI benefits.

## ADMINISTRATIVE SANCTIONS

To further target fraud in our programs, we developed a strategic initiative focused on imposing administrative sanctions.

### DESCRIPTION

Current OASDI beneficiaries or SSI recipients who intentionally misrepresent facts to receive their benefits are subject to administrative sanctions punishable by suspension of their benefits for 6, 12, or 24 months. We implemented a new process to ensure that FO staffs consistently apply administrative sanctions in a manner that curbs fraudulent behavior, helps to reduce improper payments, and preserves the public's trust in our programs.

### CORRECTIVE ACTIONS:

Table 14 shows our actions to reduce errors by imposing administrative sanctions.

Table 14: Administrative Sanctions – Corrective Actions		
Description	Target Completion	Status
Implement the new administrative sanctions business process nationally.	Completed September 2013	We published instructions and conducted an interactive video training session for all FO staff.
Evaluate the effectiveness of the new process we implemented nationally.	December 2014	In April 2014, we completed a preliminary evaluation report covering implementation through January 2014. We expect a final evaluation report of the new process at the end of first quarter FY 2015. The extended evaluation period provides for a more comprehensive measure of the effectiveness of the new procedure.

## NATIONAL ANTI-FRAUD COMMITTEE

For many years, our regional offices have successfully collaborated with regional Office of the Inspector General agents and local law enforcement on regional anti-fraud committees (RAFC). We reinstated the National Anti-Fraud Committee (NAFC), co-chaired by the Inspector General and our Deputy Commissioner for Budget, Finance, Quality, and Management. The NAFC leads and supports national and regional strategies to combat fraud, waste, and abuse. Support includes, but is not limited to, the following:

- Provide an open forum for agency senior executives to collaborate and develop agency-level strategies to address fraud challenges;
- Consider best practices, benchmarking, and new or evolving technology and analytical techniques to help prevent and detect fraud;
- Ensure that the agency addresses the most critical vulnerabilities related to fraud;

- Evaluate potential anti-fraud initiatives introduced by the RAFCs, workgroups, and employee suggestions; and
- Visibly demonstrate the agency's commitment to combatting fraud and fostering public confidence in the stewardship of our programs.

Co-chairs of the NAFC meet periodically to ensure sustained attention on anti-fraud efforts. Full NAFC meetings convene on an ad hoc basis, or at least quarterly. At any time, members may ask the co-chairs to call a meeting to discuss issues that require agency level attention. On September 18, 2014, the NAFC co-chairs hosted a National Anti-Fraud Conference to share best practices and results of anti-fraud initiatives with the RAFCs. Additional information on this activity is reported in our *Systems and Controls* section of this document.

## **DO NOT PAY INITIATIVE**

Section 5(a)(2) of the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) states that Federal agencies should review, prior to any payment and award, as appropriate, the databases within the Do Not Pay (DNP) Initiative. IPERIA Section 5(d)(3) also states that, by June 1, 2013, agencies must match their payments against DNP databases.

The Department of the Treasury's (Treasury) DNP system data sources available during FY 2014 that are applicable to our OASDI and SSI benefit payments include the General Services Administration's Excluded Parties List System (EPLS), our public version of the Death Master File (DMF), and prisoner information. Below we describe our planned use of EPLS and our production of the DMF and Prisoner Update Processing System (PUPS), therefore, precluding our use of the Treasury DNP system at this time.

**Excluded Parties List System:** Prior to making an award to a contractor, we use the General Services Administration's System for Award Management to determine a contractor's eligibility. We do not award contracts where prior bad performance is in question.

**List of Excluded Individuals/Entities (LEIE):** We currently comply with regulations to use the HHS's LEIE, which accomplishes the same purpose as EPLS. As prescribed in our policy, the State disability determination services (DDS) are required to check LEIE at least annually. LEIE includes the names of providers excluded from federally funded health care programs. The DDSs also verify medical licenses, credentials, and certifications with State medical boards. In addition, because the DDSs are State agencies, they do not have direct access to DNP.

**Death Master File:** We provide the public DMF for DNP. The DMF is an extract of death information created from our own internal records (i.e., the Numident). These records contain basic information, such as name, date of birth, place of birth, and date of death for every SSN holder. We update death information on the Numident daily based on information from acceptable reporters (e.g., States, funeral homes, and family members). We disperse reported death information to our related records using a complex systems interface.

We produce both the public DMF and a full file of death information. The full file of death information contains State-reported death data, and as mandated by Section 205(r) of the *Social Security Act*, we share it with a limited number of Federal agencies. The public DMF, used for the Treasury DNP system, does not currently contain State death information.

**Prisoner Information:** To comply with the *Bipartisan Budget Act of 2013*, we collaborated with Treasury to provide current prisoner information starting in FY 2014 for purposes of DNP. We will share our prisoner information with Treasury in two phases. In Phase 1, we will share our current prisoner information, and in Phase 2, we will provide current and additional data elements. In September 2014, we sent approximately 5.6 million records extracted from PUPS, and over 7,600 records with prisoner facility contact information from the Incarceration Reporting and Control System (IRCS). In FY 2015, we will send Treasury daily Numident-screened prisoner records (approximately 12 million records annually) and over 7,000 facility contact information records from IRCS weekly.

## OUR ACTIONS AND THEIR FREQUENCY TO PREVENT IMPROPER PAYMENTS

We have pre- and post-payment internal controls for our benefit payment records including:

### Pre-payment Internal Controls: Benefit Payment Intercept Process

We continuously screen beneficiary payment records for any adverse information that prohibits issuing benefit payments (e.g., reliable reports of death, incarceration, and overpayments). When we identify these situations, we systematically intercept and hold the monthly benefit payments until we review the case. Historically, we have performed payment intercepts for each monthly payment cycle; however, we did not capture management information until FY 2014. The table below contains payment intercept information reported in January 2014 through September 2014.

Table 15: OASDI Payment Intercepts (dollars in millions)						
Type of Payment	Number of Payments Intercepted Due to Death	Amount of Payments Intercepted Due to Death	Number of Payments Disbursed	Amount of Payments Disbursed	Percent of Intercepted Payments	Percent of Intercepted Dollars
OASDI	355,984	\$436.13	524,045,440	\$571,431.40	0.07%	0.08%
Notes: 1. This table represents OASDI payment intercepts for benefits payable January 2014 through September 2014. 2. The Percent of Intercepted Payments and the Percent of Intercepted Dollars represents the percentage of total payments <b>before</b> we apply our intercept process, not the percentage of total payments after we intercept payments. 3. Monthly reports are generated the month after the benefits are payable. For example, any payments intercepted from the December 2013 benefits are shown in the January 2014 intercept report. 4. If we discover a suspension or termination event after the creation of our payment files, our intercept process prevents issuance of that payment.						

Similar to OASDI, prior to creating our payments files, we continuously check the SSI records for any adverse information that would prohibit issuing benefit payments.

**Post-payment Internal Controls:** We have several post-payment internal controls to track and resolve discrepancies related to allegations of death, including:

- The Numident Death Match – This match identifies discrepancies between the Numident and our payment records, which results in monthly alerts that feed into the Death Alerts Tracking System (DATS). We use DATS to resolve these alerts and stop paying benefits, if appropriate.
- The Death Alert Control Update System – This system captures death data, which updates the Numident via batch processing.
- The Electronic Death Record Process – This system verifies recorded death data to check the deceased person's SSN and other information against the Numident. Our system performs this check in real-time.

## RECOVERY OF OVERPAYMENTS DUE TO DEATH

The Federal Government uses the reclamation process to recover benefit payments paid via direct deposit to the financial account of a beneficiary who died, became legally incapacitated, or a beneficiary who died before the date of the payment(s). To recover OASDI and SSI payments funds from U.S. financial institutions, we must send

reclamation requests within 120 days of the date we learned of a beneficiary's death. A financial institution may protest any reclamation if it believes we did not initiate reclamations timely.

For overpayments due to death that we paid the beneficiary by paper check, we have procedures for recovering both OASDI and SSI improper payments. Below are examples of our actions.

If the overpaid OASDI beneficiary is deceased, we attempt to recover the overpayment by:

- Withholding any underpaid benefits due the deceased beneficiary;
- Withholding any lump-sum death payment payable to individuals on the same earnings record;
- Proposing adjustment against any person who was living in the same household and receiving benefits on the overpaid individual's earnings record at the time the overpaid individual died; or
- Sending a letter to the endorser or the deceased's estate requesting repayment.

If the overpaid SSI recipient is deceased, we will notify the estate of the overpayment and seek recovery from:

- A liable representative payee;
- A liable spouse;
- A sponsor of an alien recipient (under certain circumstances); or
- Any individual who committed fraud to cause the overpayment.

## AGENCY EFFORTS TO COLLECT OVERPAYMENTS IN THE OASI, DI, AND SSI PROGRAMS

In addition to our efforts to prevent and detect improper payments, we also have a comprehensive debt collection program. We collected \$3.32 billion in OASDI and SSI benefit overpayments in FY 2014 at an administrative cost of \$0.07 for every dollar collected. We collected \$16.38 billion over a 5-year period (FYs 2010-2014). Since 2004, our cumulative recoveries are \$30.98 billion for OASDI and SSI benefit overpayments. To recover overpayments, we use internal debt collection techniques (i.e., payment withholding, billing, and follow-up), as well as the external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts. From 1992 through September 2014, our external collection techniques have yielded \$5.170 billion in benefit overpayment recovery. Table 17 provides a description of each of our external collection techniques and a summary of the results.

We suspend or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards. Generally, we terminate or suspend collection action when the debtor cannot repay, we are unable to locate the debtor, or the cost of collection is likely to be more than the amount recovered. Terminating collection action is a temporary or conditional write-off in that the debt remains on the debtor's record. If the debtor becomes entitled to benefits in the future, we will collect the debt by appropriate and available methods.

We developed a system to handle the Treasury Offset Program (TOP), credit bureau reporting, and Administrative Wage Garnishment (AWG). Because the system includes more than TOP and is the basis for any future collection interfaces with agencies or entities outside our agency, we call it the External Collection Operation (ECO) system.

In September 2013, we enhanced ECO to collect delinquent debts through Treasury's State Reciprocal Program (SRP). SRP allows States to enter into reciprocal agreements with Treasury to collect unpaid State debt by offset of Federal non-tax payments. In return, the agreements allow the Federal Government to collect delinquent non-tax debt by offset of State payments.

As authorized by Public Law 110-246, in May 2012, we enhanced ECO to collect delinquent debts through TOP beyond the previous 10-year statute of limitations. In April 2014, some members of the public alleged that they received no prior notice that Treasury would offset their eligible payments to recover their delinquent overpayments. In response to the allegations, effective April 14, 2014, our Acting Commissioner ordered a halt of TOP referrals for debts 10 years or more delinquent, pending a thorough review of our responsibility and discretion under the law. We concluded our preliminary review in July 2014. Through our preliminary review, we determined that we correctly applied our regulations, policies, and procedures when we referred delinquent debts to TOP.

Continued improvement in other aspects of our debt collection program is underway. As resources permit, we will expand the Non-Entitled Debtors (NED) program and implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest, or indexing of debt to reflect its current value. In addition, we will assess the use of private collection agencies in debt collection.



## COLLECTING DEBT

Our improper payments strategy includes focusing on enhancements to improve our OASDI and SSI debt recovery efforts.

### DESCRIPTION

In October 2013, we began notifying debtors of our ability to offset eligible State payments to collect their debt. In addition, to continue to expand our use of TOP, we intend to:

- Resume initial notification to all debtors with debts delinquent 10 years or more; and
- On a monthly basis, continue to notify debtors of our ability to offset eligible State payments to collect their delinquent debt.

These changes also support debt management compliance and performance as required by OMB.

Table 16 shows enhancements to improve our OASDI and SSI debt recovery efforts.

Table 16: Collecting Debt – Corrective Actions		
Description	Target Completion	Status
Collect delinquent OASDI and SSI debts through TOP/SRP.	September 2015	We implemented the required systems enhancements in 2013. We began sending mandatory notification to delinquent debtors in October 2013.
Complete initial notification to debtors for delinquent debts 10 years or older for possible use of TOP to recover the debts.	TBD	We intend to resume our TOP notifications to debtors for delinquent debts 10 years or older in FY 2015.

Table 17 shows the external collection techniques we use to recover OASDI and SSI overpayments.

<b>Table 17: Cumulative Programmatic Debt Recovery Methods Through FY 2014</b> (dollars in billions)					
<b>Recovery Method</b>	<b>Inception</b>	<b>Description</b>	<b>OASDI</b>	<b>SSI</b>	<b>TOTAL</b>
<b>TOP</b>	1992	TOP allows us to collect delinquent debt by tax refund offset, administrative offset, and Federal salary offset. We collected \$205.8 million in FY 2014 through this initiative.	\$1.567	\$0.992	\$2.559
<b>Credit Bureau Reporting</b>	1998	We report delinquent debts owed by former OASDI beneficiaries and SSI recipients to credit bureaus. Credit bureau reporting contributed to the recovery of \$70.6 million in FY 2014.	\$0.502	\$0.355	\$0.857 <sup>1</sup>
<b>Cross-Program Recovery</b>	2002	Cross-program recovery collects OASDI overpayments from monthly SSI payments and underpayments, and SSI overpayments from monthly OASDI benefit payments and underpayments. We collected \$146.3 million <sup>2</sup> through cross-program recovery in FY 2014.	\$0.203	\$0.899	\$1.102
<b>NED</b>	2005	NED is an automated system used to control recovery activity for debtors who are not entitled to benefits (e.g., representative payees who receive payments after the death of a beneficiary). We used NED to recover \$3.6 million in FY 2014.	\$0.033	N/A	\$0.033 <sup>3</sup>
<b>AWG</b>	2005	AWG allows us to recover delinquent OASDI and SSI overpayments by ordering a debtor's employer to garnish up to 15 percent of the debtor's private-sector disposable (i.e., that part of a worker's total compensation after deduction of health insurance premiums and required deductions) pay. We collected \$16.9 million through this process in FY 2014.	\$0.124	\$0.025	\$0.149
<b>Automatic Netting SSI</b>	2002	This program automatically nets SSI overpayments against SSI underpayments. Using this program, we "netted" \$122.6 million in FY 2014.	N/A	\$1.360	\$1.360
<b>Total</b>			\$1.894	\$3.276	\$5.170
<b>Notes:</b> <ol style="list-style-type: none"> <li>1. Credit bureau reporting is a subset of TOP collections.</li> <li>2. The cross-program recovery total for FY 2014 includes all cross-program recoveries; however, the cumulative cross-program recovery totals include only those totals we can track since inception.</li> <li>3. NED is a subset of TOP and AWG collections.</li> </ol>					

Refer to the Debt Management section of this *Agency Financial Report* for information on our programmatic and administrative debt activity.

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## PAYMENT RECAPTURE AUDIT PROGRAM: BENEFIT PAYMENTS

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For our OASDI and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts. We have a multi-pronged approach to conducting payment recapture audits for our OASDI and SSI programs. Our employees follow an internal review process to determine OASDI and SSI payment accuracy. We perform stewardship reviews, which measure the accuracy of payments to beneficiaries and recipients. Each month, specialists with extensive expertise in our surveys, benefit programs, business processes, applied statistics and statistical models, and business analytics, conduct our stewardship reviews. These employees review a sample of OASDI and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, make collateral contacts as needed, and redevelop all non-medical factors of eligibility and payment amount for the review period. We use these data to identify payment accuracy as well as our strengths and weaknesses, which allows us to target our resources to take corrective actions that yield the highest return on investment.

In our FOs, processing centers, and State DDSs, employees conduct reviews for ongoing eligibility. Medical CDRs are periodic reevaluations to determine if beneficiaries still meet our definition of disability. A work CDR is a review of the eligibility requirements regarding a DI beneficiary's ability to perform SGA. SSI redeterminations are periodic reviews of non-medical factors of eligibility, such as income and resources. Our statistical predictive models help us prioritize the CDRs and redeterminations we work annually. We first work those CDRs and redeterminations that will likely result in the greatest savings. Please see the section of this improper payments report titled, Agency Efforts to Reduce Improper Payments, Human Capital to Support Improper Payment Workloads, for information on savings.

CDRs and SSI redeterminations are our most effective payment recapture program integrity activities; both identify cases where we should discontinue benefit payments. To support CDRs and redeterminations, we specifically request funding through the normal budget process, and the number of CDRs and redeterminations we can conduct each year depends on the level of resources appropriated to the agency.

### PAYMENT RECAPTURE AUDIT REPORTING

OMB Circular No. A-136, *Financial Reporting Requirements*, requires agencies that have programs or activities that are susceptible to significant improper payments to report on their payment recapture audit activities. For our OASDI and SSI benefit payments, we are unable to segregate our improper payments from our total overpayment universe. Not all overpayments are improper. Certain overpayments are unavoidable and not improper if the payment is required by statute, regulation, or court order, such as continued payments required by due process procedures. Tables 18-20 show our OASDI and SSI overpayment experience, inclusive of improper payments.

**Table 18: FY 2014 Payment Recapture Audit Reporting  
Benefit Payments<sup>1,8</sup>  
(dollars in millions)**

Type of Payment	OASDI	SSI
Amount Subject to Review for Current Year (CY) Reporting <sup>2</sup>	\$11,086.9	\$10,512.1
Actual Amount Reviewed and Reported CY <sup>2</sup>	\$11,086.9	\$10,512.1
Amount Identified for Recovery CY <sup>2</sup>	\$11,086.9	\$10,512.1
Amount Recovered CY <sup>3</sup>	\$2,117.3	\$1,198.2
Percent of Amount Recovered Out of Amount Identified CY	19%	11%
Amount Outstanding CY <sup>4</sup>	\$8,969.6	\$9,313.8
Percent of Amount Outstanding Out of Amount Identified CY	81%	89%
Amount Determined Not to be Collectable CY <sup>5</sup>	\$449.3	\$318.7
Percent of Amount Determined Not to be Collectable Out of Amount Identified CY	4%	3%
Amounts Identified for Recovery Prior Years (PY) <sup>6</sup>	\$8,156.8	\$8,228.0
Amounts Recovered PYs <sup>3</sup>	\$2,117.3	\$1,198.2
Cumulative Amounts Identified for Recovery (CY + PYs) <sup>2</sup>	\$11,086.9	\$10,512.1
Cumulative Amounts Recovered (CY + PYs) <sup>3</sup>	\$2,117.3	\$1,198.2
Cumulative Amounts Outstanding (CY + PYs) <sup>7</sup>	\$8,969.6	\$9,313.8
Cumulative Amounts Determined Not to be Collectable (CY + PYs) <sup>5</sup>	\$449.3	\$318.7

## Notes:

1. This table comprises all identified and recovered benefit program overpayments for the specified fiscal year. Overpayments identified or recovered in a specified year include debt established in prior years.
2. The amounts reported are debt available for recovery in the specified fiscal year. These amounts include debts identified in previous fiscal years that were not recovered or were determined to be uncollectable. Debts identified in FY 2014 were \$2,930.1 million for OASDI and \$2,224.0 million for SSI.
3. The amounts reported are FY 2014 recoveries from debt we had available for recovery in FY 2014, which include debts identified in PYs.
4. The amounts reported equal the "Amount Identified for Recovery CY" minus the "Amount Recovered CY."
5. The amounts reported are uncollectable debt in the CY and include debts identified in PYs.
6. The amounts reported are outstanding debt we had available for recovery prior to the CY, which include debts identified in PYs.
7. The amounts reported equal the "Cumulative Amounts Identified for Recovery (CY + PYs)" minus the "Cumulative Amounts Recovered (CY + PYs)."
8. There may be slight variances in the dollar amounts and percentages due to rounding of the source data.

## PROGRAM RECOVERY TARGETS

IPERA guidance requires that agencies establish annual targets for their payment recapture audit programs that will drive their annual performance. The targets represent the rate of recovery (i.e., amount of improper overpayments recovered divided by the amount of improper overpayments identified). Our payment recapture recovery targets for FYs 2015-2017 are based on our FY 2014 experience. We will not achieve OMB's annual payment recapture target rate of 85 percent.

Factors beyond our control affect our payment recapture recovery targets. For example, the state of the economy affects the availability of employment. When jobs are plentiful and former OASDI beneficiaries and SSI recipients are working, we generally experience greater collections from our external debt collection tools.

**Table 19: FY 2014 Payment Recapture Audit Targets  
Benefit Payments  
(dollars in millions)**

Type of Payment	FY 2014 Amount Identified	FY 2014 Amount Recovered	FY 2014 Recovery Rate (Amount Recovered/ Amount Identified)	FY 2015 Recovery Rate Target	FY 2016 Recovery Rate Target	FY 2017 Recovery Rate Target
OASDI	\$11,086.9	\$2,117.3	19%	19%	19%	19%
SSI	\$10,512.1	\$1,198.2	11%	11%	11%	11%

Note:

1. The recovery rate target is based on FY 2014 and prior years' experience and the anticipated growth of our benefit payments in FYs 2015-2017.

**Table 20: FY 2014 Aging of Outstanding Overpayments  
Benefit Payments  
(dollars in millions)**

Type of Payment	FY 2014 Amount Outstanding (0 to 6 Months)	FY 2014 Amount Outstanding (6 Months to 1 Year)	FY 2014 Amount Outstanding (Over 1 Year)
OASDI	\$791.5	\$353.9	\$1,497.7
SSI	\$605.8	\$372.4	\$2,733.5

Note:

1. The aging of outstanding overpayments begins when the overpayment is delinquent, which is generally when no voluntary payment has been made 30 days after the latest of the following dates:
  - The debt was established on our system for OASDI;
  - The initial overpayment notice for a debt established on the SSI system;
  - The last voluntary payment;
  - An installment arrangement;
  - A decision on an individual's request to reconsider the existence of the overpayment; or
  - A waiver denial.

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## IMPROPER ADMINISTRATIVE PAYMENTS

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We evaluated our FY 2013 administrative expenses and determined they were not susceptible to significant improper payments as defined by IPIA.

### RISK ASSESSMENT

IPERA requires agencies to review administrative payments as part of their annual risk assessment process. If these risk assessments determine that an agency's administrative payments are susceptible to significant improper payments, the agency is required to establish an annual improper payment measurement related to administrative payments.

As part of the risk assessment, we considered the following factors:

- A number of financial statement audits, which identified no significant weaknesses in the administrative payment process;
- The size, stability, and complexity of our administrative payment processes;
- The historically low error rate for administrative payments;
- Extensive controls inherent in our administrative payment systems; and
- The current internal control structure we have in place to prevent, detect, and recover improper administrative payments.

We reviewed the agency's Travel and Purchase Card Management Plans required by OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs*. We also leveraged the results of a financial risk assessment conducted by an independent accounting firm in support of our *Federal Managers' Financial Integrity Act* compliance program. This assessment found that our overall risks are low in the areas of administrative expenses and payables as well as human resources and payroll management.

We demonstrate that, other than what is required in our annual *Agency Financial Report*, our administrative payments do not meet the criteria for further improper payment reporting to Congress or OMB.

### INTERNAL PAYMENT RECAPTURE AUDIT PROGRAM

We segment administrative payments into several categories, as shown in Table 21, to analyze and determine the vulnerability of these outlays to improper payments.

**Table 21: FY 2013 Administrative Expenses**  
(dollars in millions)

<b>Payroll and Benefits</b>	\$6,282
<b>State DDS</b>	\$2,039
<b>American Recovery and Reinvestment Act (ARRA)<sup>1</sup></b>	\$156
<b>Other Administrative Expenses<sup>2</sup></b>	\$2,954
<b>Total Administrative Expenses</b>	\$11,431
<p>Notes:</p> <ol style="list-style-type: none"> <li>ARRA expenses consist primarily of National Support Center building costs.</li> <li>Other Administrative Expenses includes vendor, travel, transportation, rents, communications and utilities, printing and reproduction, other services, supplies and materials, equipment, land and structure, grants, subsidies and contributions, information technology systems, OASI and DI Trust Fund operations, other dedicated accounts, other reimbursable, interest and dividends, and insurance claims and indemnities.</li> </ol>	

We use an existing in-house recovery audit program for vendor and employee travel payments that contains a number of tools to aid in the detection and recovery of improper overpayments, including:

- An automated query system to identify duplicate payments made to the same vendor, with the same invoice date, and for the same amount;
- A report to identify duplicate payments made through the third-party draft payment system and the accounts payable system; and
- A risk assessment of administrative payment systems and recovery of any overpayments identified in this process.

We conduct annual payment accuracy reviews. Results from the audit program and quality review process continue to confirm that our administrative payments are well below the OMB threshold for reporting improper payments.

For FY 2013, the internal recovery audit program included a review of \$1.351 billion in vendor and travel payments out of \$1.629 billion subject to review. We elected to exclude the following classes of contracts from the scope of the recovery audit:

- Incomplete cost-type contracts where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and conditions of the contract; and
- Cost-type contracts subjected to final contract audit and completed prior to payment of the contractor's final invoice.

We identified total vendor and travel improper overpayments of \$0.856 million, approximately 0.05 percent of total payments subject to review. As of the end of FY 2013, \$31,148 remained uncollected, which included amounts identified for recovery in prior years. The remaining receivable balance reflected the timing of when we issued the request for overpayment refund. Our recovery goal for all vendor and travel overpayments is 100 percent. We return all amounts recovered to the original appropriation from which the overpayment was made.

Payroll and benefits account for a majority of total administrative expenses. For FY 2013, we found approximately \$3.3 million in improper payroll overpayments out of \$6,282 million total payroll payments, which yielded a 0.05 percent improper overpayment rate.

Tables 22-24 show the results from our annual payment accuracy reviews for our administrative payments.

**Table 22: FY 2013 Internal Payment Recapture Audit Reporting  
Administrative Payments**  
(dollars in millions)

Type of Payment	Payroll and Benefits	Vendor and Travel
Amount Subject to Review for CY Reporting	\$6,282	\$1,629
Actual Amount Reviewed and Reported CY	\$6,282	\$1,351
Amount Identified for Recovery CY	\$3.346	\$0.856
Amount Recovered CY	\$1.831	\$0.828
Percent of Amount Recovered Out of Amount Identified CY	55%	97%
Amount Outstanding CY	\$1.515	\$0.028
Percent of Amount Outstanding Out of Amount Identified CY	45%	3%
Amount Determined Not to be Collectable CY	\$0.429	\$0.001
Percent of Amount Determined Not to be Collectable Out of Amount Identified CY	13%	0.1%
Amounts Identified for Recovery PYs	\$10.308	\$13.087
Amounts Recovered PYs	\$4.726	\$12.783
Cumulative Amounts Identified for Recovery (CY + PYs)	\$13.654	\$13.944
Cumulative Amounts Recovered (CY + PYs)	\$6.557	\$13.652
Cumulative Amounts Outstanding (CY + PYs)	\$7.097	\$0.031
Cumulative Amounts Determined Not to be Collectable (CY + PYs)	\$2.179	\$0.261

## Notes:

1. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2013 but could have occurred in a prior year.
2. Cumulative Amounts Recovered (CY + PYs) for Vendor and Travel includes \$0.040 million of amounts recovered in the current year for amounts identified in prior years.
3. Cumulative Amounts Determined Not to be Collectable (CY + PYs) for Vendor and Travel includes \$0.260 million of amounts determined not to be collectable in the current year for amounts identified in prior years.
4. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards based on the following criteria:
  1. The cost of collection does not justify the enforced collection of the full amount;
  2. The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized;
  3. The debt has been discharged in bankruptcy; or
  4. The debtor has requested a waiver or review of the debt, and the agency determines that such request is credible.
5. There may be slight variances in the dollar amounts and percentages due to rounding of the source data.



Similar to the OASDI and SSI programs, IPERA guidance requires that agencies establish annual targets for administrative payment recapture audit programs. We strive to recover all administrative overpayments, and established a 100 percent target. We selected this recovery rate based on our in-house recovery experience for the past three fiscal years. We incur a small amount of administrative overpayments, mainly from former employees and duplicate payments to vendors. We use various tools for collection, including offset of subsequent vendor payments and TOP, which includes AWG.

**Table 23: FY 2013 Internal Payment Recapture Audit Targets  
Administrative Payments**  
(dollars in millions)

Type of Payment	FY 2013 Amount Identified	FY 2013 Amount Recovered	FY 2013 Recovery Rate (Amount Recovered/ Amount Identified)	FY 2014 Recovery Rate Target	FY 2015 Recovery Rate Target	FY 2016 Recovery Rate Target
<b>Payroll and Benefits</b>	\$3.346	\$1.831	55%	100%	100%	100%
<b>Vendor and Travel</b>	\$0.856	\$0.828	97%	100%	100%	100%

Note:

1. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2013, but could have occurred in a prior year.

**Table 24: FY 2013 Internal Payment Recapture Audit  
Aging of Outstanding Overpayments  
Administrative Payments**  
(dollars in millions)

Type of Payment	FY 2013 Amount Outstanding (0 to 6 Months)	FY 2013 Amount Outstanding (6 Months to 1 Year)	FY 2013 Amount Outstanding (Over 1 Year)
<b>Payroll and Benefits</b>	\$1.045	\$0.574	\$1.514
<b>Vendor and Travel</b>	\$0.014	\$0.012	\$0.004

Note:

1. The payroll and benefits aging amounts outstanding over one year only include reductions (collections, write-offs, etc.) through the end of FY 2012.

## MAJOR CAUSES

The major causes of improper administrative payments (overpayments and underpayments) include:

- Incorrect amounts paid (including duplicate payments); and
- Time and attendance records processed before actual data are available. To ensure we pay our employees on time, several times a year our business process (e.g., operational and systems processing schedules) require that we process employees' time and attendance records before actual data are available (i.e., early payroll closeout, which occurs when there is a Monday holiday and closeout is on Friday). Subsequently, this action can result in an improper payment.

Corrective actions include:

- To prevent paying incorrect amounts (including duplicate payments), we enhanced the Case Processing and Management System (CPMS) to process administrative payments. CPMS electronically transmits orders (funding obligations) for services and invoice information (e.g., total amount of invoice, invoice number, and vendor information) from hearing offices directly into our centralized accounting system. This system transmits an invoice electronically against each obligation only once for goods and services (e.g., testimony from medical or vocational experts and verbatim hearing reporter services), allowing a vendor to be paid only for services recorded and certified in CPMS. We fully implemented the CPMS enhancement in all hearing offices and National Hearing Centers by December 2012. Because of the time lag between scheduling hearings and paying the respective invoices for services rendered at those hearings, we did not realize full benefit of the enhancement, which was the elimination of improper payments for these invoice types, until FY 2014; and
- After early closeout of time and attendance, agency personnel, including employees, timekeepers, and certifiers identify corrective actions. For example, if early closeout occurs on Friday and the employee works overtime on Saturday, we process an amendment to correct the employee's time sheet. Although an improper payment may result, early closeout is a standard agency business practice and does not require corrective action.

## INDEPENDENT PAYMENT RECAPTURE AUDIT

To further strengthen our internal controls, in November 2011, we awarded a contract to a vendor to perform a payment recapture audit of our administrative payments.

This contract required the examination of our administrative payment processes to identify overpayments made during FYs 2008-2010. The contractor:

- Identified funds lost due to overpayments;
- Defined the reason for the overpayment;
- Notified us of any overpayments identified; and
- Developed recommendations for preventing future overpayments.

The auditors completed the payment recapture audit in August 2013. Of \$23,282 million in payments reviewed, the auditors identified, and we confirmed by May 2014, improper payments totaling \$29,191, approximately 0.00013 percent of the payments reviewed. By June 2014, we collected 100 percent, \$29,191, of the amounts identified for recovery. In accordance with the contract, by July 2014, we reimbursed the independent auditors 18.5 percent or \$5,400, of the amount collected. We returned all amounts recovered, and charged the auditors' fee against the original appropriations from which the overpayments were made in compliance with IPERA.

## ADMINISTRATIVE PAYMENT RECAPTURE AUDIT REPORTING

Tables 25-27 show the results from our independent payment recapture audit for our administrative payments.

Table 25: FY 2014 Independent Payment Recapture Audit Reporting Administrative Payments (dollars in millions)			
Type of Payment	Payroll and Benefits	State DDS	Vendor and Travel
Amount Subject to Review for CY Reporting	\$18,572	\$146	\$4,563
Actual Amount Reviewed and Reported CY	\$18,572	\$146	\$4,563
Amount Identified for Recovery CY	\$0.000	\$0.022	\$0.007
Amount Recovered CY	\$0.000	\$0.022	\$0.007
Percent of Amount Recovered Out of Amount Identified CY	0%	100%	100%
Amount Outstanding CY	\$0.000	\$0.000	\$0.000
Percent of Amount Outstanding Out of Amount Identified CY	0%	0%	0%
Amount Determined Not to be Collectable CY	\$0.000	\$0.000	\$0.000
Percent of Amount Determined Not to be Collectable Out of Amount Identified CY	0%	0%	0%
Amounts Identified for Recovery PYs	N/A	N/A	N/A
Amounts Recovered PYs	N/A	N/A	N/A
Cumulative Amounts Identified for Recovery (CY + PYs)	\$0.000	\$0.022	\$0.007
Cumulative Amounts Recovered (CY + PYs)	\$0.000	\$0.022	\$0.007
Cumulative Amounts Outstanding (CY + PYs)	\$0.000	\$0.000	\$0.000
Cumulative Amounts Determined Not to be Collectable (CY + PYs)	\$0.000	\$0.000	\$0.000
Notes:			
<ol style="list-style-type: none"> <li>1. The "Actual Amount Reviewed and Reported CY" for the State DDSs consisted of a sample of two States, Florida and North Carolina. The independent auditors reviewed the medical evidence of record and consultative examination payments only.</li> <li>2. Independent auditors conducted the payment recapture audit November 7, 2011 through August 5, 2013. By June 2014, we confirmed and recovered 100 percent of the amounts identified for recovery.</li> <li>3. There may be slight variances in the dollar amounts and percentages due to rounding of the source data.</li> </ol>			

**Table 26: FY 2014 Independent Payment Recapture Audit Targets  
Administrative Payments**  
(dollars in millions)

Type of Payment	FY 2014 Amount Identified	FY 2014 Amount Recovered	FY 2014 Recovery Rate (Amount Recovered/ Amount Identified)	FY 2015 Recovery Rate Target	FY 2016 Recovery Rate Target	FY 2017 Recovery Rate Target
Payroll and Benefits	\$0.000	\$0.000	100%	100%	100%	100%
State DDS	\$0.022	\$0.022	100%	100%	100%	100%
Vendor and Travel	\$0.007	\$0.007	100%	100%	100%	100%
Note: 1. Currently, we do not have plans for a future independent payment recapture audit, but our target recovery rate remains at 100 percent.						

**Table 27: FY 2014 Independent Payment Recapture Audit  
Aging of Outstanding Overpayments  
Administrative Payments**  
(dollars in millions)

Type of Payment	FY 2014 Amount Outstanding (0 to 6 Months)	FY 2014 Amount Outstanding (6 Months to 1 Year)	FY 2014 Amount Outstanding (Over 1 Year)
Payroll and Benefits	\$0	\$0	\$0
State DDS	\$0	\$0	\$0
Vendor and Travel	\$0	\$0	\$0
Note: 1. By June 2014, we collected 100 percent of the amounts identified and confirmed for recovery during the independent payment recapture audit; therefore, there are no outstanding overpayments.			

## MAJOR CAUSE

The independent auditors determined the major cause of improper payments identified during the payment recapture audit resulted from incorrect amounts paid (duplicate payments).

Because we paid 99.99 percent (dollar amounts) of the administrative payments reviewed by the independent auditors accurately, we determined there would be no cost benefit to taking additional corrective actions. Our internal controls, policies, and procedures established to prevent improper payments are working optimally.

**Table 28: Administrative Debt Overpayments – Detections and Recoveries**  
(dollars in millions)

Administrative Debt Overpayments	Amount Identified FY 2014	Amount Recovered FY 2014	Amount Identified FY 2013	Amount Recovered FY 2013	Cumulative Amount Identified FY 2014 and 2013	Cumulative Amount Recovered FY 2014 and 2013
<b>Total</b>	\$3.7	\$2.0	\$1.9	\$1.2	\$5.6	\$3.2

## Notes:

1. The totals mainly include identified and recovered overpayments from sources other than our in-house recovery audit program for vendor and employee travel payments and our payment accuracy reviews for payroll and benefits payments, which we discuss in the Payment Recapture Audit Program: Administrative Payments section of this improper payments report.
2. Identified overpayments in a given fiscal year represent identified debt that can span multiple fiscal years.
3. We do not consider every overpayment improper according to the definition contained in IPIA.

## AGENCY EFFORTS TO REDUCE IMPROPER PAYMENTS

We focus on achieving our goals to reduce improper payments through the following:

- Internal controls;
- Human capital to support improper payment workloads;
- Information systems;
- Other infrastructure; and
- Statutory and regulatory barriers.

### INTERNAL CONTROLS

We have a well-established, agency-wide management control program as required by the *Federal Managers' Financial Integrity Act*. We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses and monitoring those plans until we correct the weaknesses.

The effective internal controls we incorporate into our business processes and financial management systems, as well as the program integrity efforts mentioned throughout this report, support the Acting Commissioner's annual statement to the President and Congress on whether our:

- Internal controls over the effectiveness and efficiency of programs and compliance with applicable laws and regulations are operating effectively;
- Financial management systems are in conformance with government-wide requirements; and
- Internal controls over financial reporting are operating effectively.

We include the Acting Commissioner's annual statement of assurance, additional information on our review program, and our financial statement audit, in the *Systems and Controls* section of this *Agency Financial Report*. In addition, we include the auditor's report in the *Auditor's Reports* section of this *Agency Financial Report*.

Our strong overall internal control program contributes significantly to our efforts to reduce improper payments.

## THE DISASTER RELIEF APPROPRIATIONS ACT - HURRICANE SANDY

The *Disaster Relief Appropriations Act of 2013* (Disaster Relief Act) requires that Federal agencies supporting Hurricane Sandy recovery and other disaster-related activities implement additional internal controls to prevent waste, fraud, and abuse of these funds. The Disaster Relief Act required each Federal agency to submit an internal control plan to OMB, the Government Accountability Office, our agency's Inspector General, and the Committees on Appropriations of the House of Representatives and the Senate by March 31, 2013.

OMB Memorandum M-13-07, *Accountability for Funds Provided by the Disaster Relief Appropriations Act*, provides an overview of the internal control planning and reporting requirements for all programs funded under the Disaster Relief Act, with a focus on the following elements: (1) additional internal controls, (2) improper payments protocol, and (3) recapture of unexpended grant funds 24 months after agency obligation. On March 28, 2013, we submitted our *Hurricane Sandy Disaster Relief (HSDR) Internal Control Plan and Risk Assessment*. We determined the overall risk level for activities associated with HSDR payments was low, considering our overall control environment and specific control activities to monitor and report HSDR funds. However, the Disaster Relief Act requires us to treat these payments as "susceptible to significant improper payments" for purposes of the IPIA. Accordingly, we tested 100 percent of the HSDR payment population to ensure we used the Disaster Relief Act funds precisely for their intended purposes, and we found no improper payments. Table 29 provides details of our payments from funds provided by the Disaster Relief Act.

**Table 29: Disaster Relief Act Funds Improper Payments Experience  
FY 2013 – FY 2014 Outlays**  
(dollars are actuals)

	FY 2013		FY 2014		Total FY 2013 & FY 2014	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>Travel and Transportation of Persons</b>	\$553,029	0.00%	\$0	0.00%	\$553,029	0.00%
<b>Transportation of Things</b>	\$11,553	0.00%	\$7	0.00%	\$11,560	0.00%
<b>Rent, Telecommunications, and Utilities</b>	\$115,770	0.00%	\$0	0.00%	\$115,770	0.00%
<b>Other Services (Recovery &amp; restoration of folders and building repairs)</b>	\$160,379	0.00%	\$80,368	0.00%	\$240,747	0.00%
<b>Supplies and Materials</b>	\$13,916	0.00%	\$571	0.00%	\$14,487	0.00%
<b>Equipment</b>	\$49,499	0.00%	\$511	0.00%	\$50,010	0.00%
<b>Total Payments</b>	\$904,146	0.00%	\$81,457	0.00%	\$985,603	0.00%

## Notes:

1. Total FY 2013 payments represent the total outlays against the obligations.
2. Total FY 2014 payments represent the total outlays in FY 2014 against the FY 2013 obligations.
3. The FY 2013 obligations were for \$1,021,379. The current unpaid obligation balance is \$35,776.
4. The term “rate” in the above table reflects our error rate.

## HUMAN CAPITAL TO SUPPORT IMPROPER PAYMENT WORKLOADS

For our program integrity reviews, we completed increasing numbers of CDRs and SSI redeterminations between FY 2008 and FY 2012. However, due to budget constraints, we were unable to continue increasing this cost-effective work in FY 2013, and we actually experienced a decline in the number of full medical CDRs completed. In FY 2013, we completed a total of over 428,500 full medical CDRs and over 2.634 million SSI redeterminations. In FY 2014, our budget increased and, as a result, we were once again able to increase the number of full medical CDRs that we process. In FY 2014, we completed over 525,800 full medical CDRs and approximately 2.628 million SSI redeterminations. In addition, we completed approximately 247,200 work CDRs in FY 2014.

Our program integrity work is labor-intensive and dependent on having the necessary trained staff to do the work. The same employees who handle our program integrity work also handle applications for benefits and other mission-critical work.

The *Budget Control Act* (Public Law 112-25) includes program integrity initiatives to reduce improper benefit payments under the DI and SSI programs. It allows adjustments to the government-wide discretionary caps to permit additional appropriations for purposes of conducting CDRs and SSI redeterminations to the extent that such appropriations for program integrity purposes exceed \$273 million a year. For FY 2015, the funding adjustment authorized is \$1.123 billion above the discretionary cap. If appropriated, the total amount of \$1.396 billion will enable us to complete 888,000 periodic medical CDRs, an increase of nearly 378,000 from [our FY 2014 Operating Plan \(www.socialsecurity.gov/legislation/Agency Operating Plan FY2014.pdf\)](http://www.socialsecurity.gov/legislation/Agency%20Operating%20Plan%20FY2014.pdf) target, and continue handling 2.622 million SSI redeterminations, resulting in significant savings of taxpayer dollars. We estimate that our FY 2015 program integrity fund will yield, on average, \$9 in net program savings over 10 years for each dollar spent on CDRs, including Medicare and Medicaid program effects, and on average, \$4 in savings over 10 years for each dollar spent for SSI redeterminations, including Medicaid program effects.

The President's FY 2015 Budget includes a special legislative proposal that will provide a dependable source of mandatory program integrity funding starting in FY 2016. The funding will enable us to significantly ramp up our program integrity work and allow us to complete more full medical CDRs, which will help ensure that only those eligible for OASDI and SSI disability benefits continue to receive them. Based on our assessments of the return on investment from CDRs completed in FY 2011 and earlier, we estimate that we will achieve significant additional program savings from the President's proposed investment in CDRs. Though our budget situation is improving, we need adequate, sustained funding to continue to increase our program integrity efforts.

Effective FY 2012, as required by IPERA, we are holding managers, program officials, and senior executives accountable for reducing improper payments. For these employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent, detect, and recover improper payments, and meet targets to reduce improper payments.

## **INFORMATION SYSTEMS**

The Comprehensive Integrity Review Process (CIRP) supports our stewardship responsibility to ensure the accuracy of benefit payments and to protect personal information maintained in our programmatic systems. This process enables us to fulfill our obligation to comply with Federal laws, such as the *Federal Managers' Financial Integrity Act*, which requires that we establish and maintain effective internal controls. CIRP automatically selects potentially fraudulent transactions for management investigation based on predefined criteria. The selection criteria focus on potentially fraudulent activity rather than improper payments. However, if the transaction involves an issued payment, the reviewer looks at the accuracy of the payment to ensure that we complied with proper procedures.

In September 2013, we implemented the Public Facing Integrity Review system to monitor potentially fraudulent online transactions. We use this tool to investigate suspicious direct deposit transactions made through [my Social Security](#) online accounts and to take steps to mitigate any losses to our agency and customers. By using our new integrity review system, during FY 2014, we prevented the attempted theft of 4,736 benefit payments for an estimated amount of over \$5.6 million.

We are also collaborating with Treasury on fraud detection activities. Together, we are developing a reclamation process to recover funds from financial institutions processing fraudulent automated enrollments for direct deposit of benefit payments. In addition, we are pursuing a specific alleged fraud indicator when individuals report that they did not receive their direct deposit payment. When implemented in FY 2015, this new indicator will provide supporting evidence with which to pursue recovery of misdirected payments.



## OTHER INFRASTRUCTURE

As required by law, we conduct preeffectuation reviews (PER) on at least 50 percent of adult initial and reconsideration disability determination allowances made by the State DDSs. We have performed PER reviews on DI cases for many years, and since the enactment of Public Law 109-171 amending Section 1633(e) (1) of the *Social Security Act* in February 2006, we have performed PER reviews on 50 percent of the allowances involving SSI adults. We use a predictive statistical model to identify error-prone disability determinations, and we return deficient cases to the State DDSs for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2012 cases will result in lifetime savings (after all appeals) of:

- \$404 million in OASDI benefit payments;
- \$77 million in SSI Federal payments;
- \$187 million in Medicare benefits; and
- \$2 million in the Federal share of Medicaid payments.

## STATUTORY AND REGULATORY BARRIERS

Our processes, policies, and regulatory and statutory requirements are complicated, which poses challenges in our administration of our programs. To meet the challenges of our growing workloads and provide the best service possible, we continue to streamline our policies and procedures and move more of our business processes to an electronic environment. We work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. The President's FY 2015 Budget includes several legislative proposals that can help simplify our programs and better identify and prevent improper payments. We discuss some of these proposals in the following paragraphs.

### DI DEMONSTRATION AUTHORITY

This proposal would renew and enhance the DI demonstration authority that expired with respect to projects initiated on or after December 18, 2005. This authority would allow us to conduct various demonstration projects. In addition to new authority to test early interventions, we would be able to test improvements in our return-to-work rules, which are subject to rigorous evaluation protocols. Simplifying the treatment of beneficiaries' earnings has the potential to eliminate current barriers to employment and reduce improper payments.

### WINDFALL ELIMINATION PROVISION AND GOVERNMENT PENSION OFFSET

Under this proposal, we would develop automated data exchanges for States and local governments to submit information on pensions based on work not covered by Social Security. The proposal includes funding for the development and implementation of the necessary data exchanges. Receiving this pension information in a timely manner would help us avoid improper payments created when we do not know a beneficiary is receiving a pension that makes WEP and GPO applicable.

### WORKERS' COMPENSATION

Under this proposal, we would require States, local governments, private insurers, and other entities that administer Workers' Compensation (WC) and public disability benefits (PDB) to report payment information to us. We would create a standardized reporting format, and develop and implement a system to collect and use the information to offset DI benefits and reduce SSI payments, as necessary. This proposal includes funding for developing and implementing the system. We currently rely on the disabled worker to report receipt of, and any changes to, WC and PDB. The proposed required reporting and a system to receive the information timely are crucial to avoid improper payments that occur when we do not have information about the receipt or amount of WC and PDB payments. Under the proposal, we would also provide pertinent collected information for child support enforcement purposes to the Secretary of HHS.

### QUARTERLY FEDERAL WAGE REPORTING

This proposal would restructure the Federal wage-reporting process by requiring employers to report wages quarterly instead of annually. The proposal would facilitate the implementation of automated enrollment of employees in existing workplace pensions. It could also improve program integrity and help reduce improper payments because more frequent reporting could provide more timely information we can use to administer our programs. Finally, increasing the frequency of wage reporting could enhance tax administration.

### MANDATORY PROGRAM INTEGRITY FUNDING

This proposal would repeal our discretionary cap adjustments beginning in FY 2016, and instead establish a dependable source of mandatory funding for CDRs and SSI redeterminations, thereby ensuring that only those eligible for benefits continue to receive them. CDRs and redeterminations are our most valuable tools to combat improper payments. This proposal would ensure we have the funding necessary to conduct these reviews and reduce our CDR backlog.

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# APPENDIX



## GLOSSARY OF ACRONYMS

### A

ADP	Automated Data Processing
AERO	Automated Earnings Reappraisal Operation
AFI	Access to Financial Institutions
AFR	Agency Financial Report
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
APG	Agency Priority Goal
APP	Annual Performance Plan
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act of 2009
ASP	Agency Strategic Plan
AWG	Administrative Wage Garnishment

### B

BOAN	Beneficiary's Own Account Number
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### C

CAATs	Computer Assisted Auditing Techniques
CAP	Cross Agency Priority
CDI	Cooperative Disability Investigation
CDR	Continuing Disability Review
CDREO	Continuing Disability Reviews Enforcement Operation
CFO	Chief Financial Officers Act of 1990
CIRP	Comprehensive Integrity Review Process
COLA	Cost of Living Adjustment
CPI	Consumer Price Index
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CPMS	Case Processing and Management System
CSRS	Civil Service Retirement System
CY	Current Year

## D

DACA	Deferred Action for Childhood Arrivals
DATS	Death Alerts Tracking System
DCPS	Disability Case Processing System
DDS	Disability Determination Services
DI	Disability Insurance
DI POMS	Disability Program Operations Manual System
DIPS	Death Information Processing System
Disaster Relief Act	Disaster Relief Appropriations Act of 2013
DMF	Death Master File
DNP	Do Not Pay
DOJ	Department of Justice

## E

eCAT	Electronic Claims Analysis Tool
ECO	External Collection Operation
EPLS	Excluded Parties List System
ESF	Earnings Suspense File

## F

FBWT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employee Group Life Insurance Program
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FICA	Federal Insurance Contributions Act
FIS	Financial Information System
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FO	Field Office
FY	Fiscal Year

## G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	Gross Domestic Product
GPO	Government Pension Offset
GPRMA	Government Performance and Results Modernization Act of 2010
GS	General Series
GSA	General Services Administration

**H**

HHS	Department of Health and Human Services
HI	Hospital Insurance
HI/SMI	Hospital Insurance/Supplemental Medical Insurance
HSDR	Hurricane Sandy Disaster Relief

**I**

IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRCS	Incarceration Reporting and Control System
IRS	Internal Revenue Service
ISM	In-Kind Support and Maintenance
IT	Information Technology

**L**

LAE	Limitation on Administrative Expenses
LEIE	List of Excluded Individuals/Entities
Listings	Listing of Impairments
LPR	Legal Permanent Resident

**M**

MD&A	Management's Discussion and Analysis
MBR	Master Beneficiary Record

**N**

NAFC	National Anti-Fraud Committee
NAPA	National Academy of Public Administration
NCC	National Computer Center
NED	Non-Entitled Debtors
NSC	National Support Center
N/A	Not Applicable

**O**

OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management

## P

PDB	Public Disability Benefits
PER	Preeffectuation Review
PP&E	Property, Plant, and Equipment
PSC	Program Service Centers
PTF	Payments to Social Security Trust Funds
Pub. L. No.	Public Law Number
PUPS	Prisoner Update Processing System
PY	Prior Year

## R

RAFC	Regional Anti-Fraud Committee
RIB-LIM	Retirement Insurance Benefit Limitation
RRI	Railroad Retirement Interchange
RSI	Required Supplementary Information

## S

SAA	Senior Attorney Adjudicator
SA&A	Security Assessment and Authorization
SDLC	System Development Lifecycle
SECA	Self Employment Contributions Act
SERS	Social Security Electronic Remittance System
SFFAS	Statement of Federal Financial Accounting Standards
SF-133	Budget Execution Reports
SGA	Substantial Gainful Activity
SMI	Supplemental Medical Insurance
SRP	State Reciprocal Program
SSA	Social Security Administration
SSI	Supplemental Security Income
SSITWR	Supplemental Security Income Telephone Wage Reporting
SSN	Social Security Number
SSOARS	Social Security Online Accounting and Reporting System

## T

TBD	To Be Determined
Title VIII	Special Veterans Benefits
TOP	Treasury Offset Program
Treasury	Department of the Treasury



## U

U.S.	United States
U.S.C.	United States Code
USSGL	United States Standard General Ledger

## V

VA	Department of Veterans Affairs
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## W

WC	Workers' Compensation
WEP	Windfall Elimination Provision
W-2	Wage and Tax Statement

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